ANNUAL REPORT 2018

euromicron

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KEY FIGURES

Key figures

	2018	2017
	€. m	€. m
Consolidated sales	**318.0**	**332.9**
Sales by business area		
Smart Buildings	173.7	191.9
Critical Infrastructures	120.8	121.0
Distribution	26.0	23.6
All other segments and reconciliation	– 2.5	– 3.6
Operating EBITDA *	**6.5**	**13.5**
Operating EBITDA * by business area		
Smart Buildings	0.1	6.9
Critical Infrastructures	5.4	6.8
Distribution	5.0	4.0
All other segments and reconciliation	– 4.0	– 4.2
Operating EBITDA margin *	**2.0 %**	**4.1 %**
Special costs with an impact on EBITDA (previous year: reorganization costs with an impact on EBITDA)	– 4.6	– 4.0
EBITDA	**1.9**	**9.5**
EBITDA margin	**0.6 %**	**2.9 %**
Operating EBIT *	**– 3.1**	**5.1**
Special costs with an impact on EBIT (previous year: reorganization costs with an impact on EBIT)	– 4.7	– 4.0
EBIT	**– 7.8**	**1.1**

	2018	2017
	€. m	€. m
Consolidated net loss for the period (for shareholders of euromicron AG)	– 11.5	– 3.8
Undiluted earnings per share (in €)	– 1.60	– 0.53
Working capital (before factoring)	**58.4**	**75.5**
Working capital ratio (before factoring)	**18.4 %**	**22.7 %**
Working capital (after factoring)	**28.7**	**43.0**
Working capital ratio (after factoring)	**9.0 %**	**12.9 %**
Cash flow from operating activities (recognized)	3.3	– 1.6
Cash flow from operating activities, adjusted for effects from factoring and customers' monies to be passed on	7.5	0.4
Order books	149.1	127.1
Equity ratio	27.2 %	31.1 %
Total assets	243.7	252.2
Employees (number as an average for the year)	1,917	1,833

* Adjusted for special costs (previous year: special effects of the reorganization).

DIGITALIZATION SHAPES OUR FUTURE. WE SHAPE DIGITALIZATION.

As a digitalization and network specialist, we make our customers fit for the future.

Working in connected systems demands more than new technology. All components and processes must be looked at and assessed in context. euromicron contributes expertise and experience to advise its customers to suit their needs and implement innovations for enterprises in a forward-looking way. In the areas of Smart Buildings, Smart Industry, Critical Infrastructures and Cybersecurity, we offer our customers tailored solutions for managed systems (platforms, software and services) and network infrastructures. In that way we make digitalization possible and help our customers develop new business models.

Jivka Ovtcharova is a professor at Karlsruhe Institute of Technology.

READ MORE

»BEING AT THE CUTTING EDGE IS A LEAP IN THE DARK«

There's gold-rush fever as soon as the word "digitalization" is mentioned. Yet even though the forecasts are splendid, smart opportunities are not always translated immediately into smart profits, especially for small and medium-sized enterprises. What does digitalization mean and what impact does it have for SMEs? What competences, investments and innovations are needed for digitalization to bear fruit?
Those are questions for Professor Jivka Ovtcharova.

Professor Ovtcharova, to what extent has digitalization already taken root at German small and medium-sized enterprises?

OVTCHAROVA That differs greatly. We should first clarify the term and ask: What actually is digitalization? Many people think digitalization is the same as electronic data processing. But that's been around for 50 years and we master it. Digitalization has a new dimension: "real-time capability". We have the Internet to thank for that. The way we now communicate in social media and on the web usually demands an immediate response. That means of responding in real time has been transferred to the economy. So at the end of the day, digitalization means real-time economy.

What does that mean for a production process?

OVTCHAROVA Everything has to be very quick: delivering results, communicating, making decisions right away. We're shifting really massively away from series production and toward individual solutions and decentralized workplaces. Yet the issue of speed has not yet really got across to many companies – and they include big ones,

» #Digitalization has a new dimension: #real-time capability. «

JIVKA OVTCHAROVA

by the way. In some cases, there aren't even any systems for analyzing data extensively in real time. We're currently working successfully with SMEs to find such solutions.

Can you explain that by giving an example?

OVTCHAROVA Yes, a fine example is your company ELABO, which has created a digitalization solution for manufacturing at small and medium-sized enterprises in the shape of its Shopfloor Execution System. We're even going one step further together and not only including machines, but also people in the system. This idea from ELABO is very innovative: Together we're developing a novel concept that not only calculates machines' capacities, but also takes into account people's potential. As you can imagine, this way of looking at things is complex. Yet it helps us reflect reality far more comprehensively.

So how can the "human" side be quantified?

OVTCHAROVA By means of a very precise description of the tasks, as well as ascertaining an individual's skills and qualifications – the concept demands intensive preliminary discussions. A company must be willing to invest that time. But it pays off: If we correctly assess every single employee on the basis of his or her abilities, we know who's best at handling what tasks. Reality in production is reversed: For the first time in industrial history, we have the chance for processes to adapt to people and not the other way round. I like to speak of "resourceful humans" in this connection – people who contribute their individual skills in a pinpointed manner. That goes far beyond human resources.

Does that mean you don't believe digitalization will make humans superfluous?

OVTCHAROVA Statistics from Bitkom show that digitalization will create up to 80% of new jobs, yet up to 42% of existing jobs will be lost. The arithmetic is easy ... Incidentally, jobs where low qualifications are required might also be retained – if the people in them train and gain further qualifications. Employees won't necessary end up on the street. There'll be work for anyone willing to adapt. But we'll definitely work differently.

Is there a visible tipping point in the working world?

OVTCHAROVA Certainly. The tipping point has already happened at large IT companies. Enterprises like Google or Apple no longer work in accordance with a set pattern. Employees have an open, inspiring environment that is relaxed and offers many opportunities for them to work as they themselves wish. That's important for creativity – and that's urgently needed for digitalization.

That actually sounds good, but can German SMEs afford that?

OVTCHAROVA No, and that's a key obstacle. Many small and medium-sized enterprises lack the resources for creative experimentation. That's why SMEs need something like a laboratory environment where they can try out their ideas. We called this concept a sandbox – a playground for companies – and offer that here at Karlsruhe Institute of Technology. Enterprises learn to develop new solutions in a playful way. And they don't run a risk and don't have to invest before they know whether value added will be generated.

ELABO and Professor Ovtcharova's team are researching the concrete role of people in the digitized production environment at Karlsruhe Institute of Technology.

Why is experimentation so important?

OVTCHAROVA We live in an age of uncertainty and complexity. Everything is evolving quickly and unexpectedly and that trend will intensify. We must be able to respond very swiftly. That means small and medium-sized enterprises must not simply continue with their usual, stable business models, but must be willing to take new approaches. The time is ripe to really use digital business models. There are three starting points that help us proceed purposefully: Mapping of the processes, analysis of the data and, lastly, presentation of the results in an intelligent, intuitive form in the shape of virtual models. The latter is especially important for us humans: Virtual reality enables us to look at a product, come into contact with it and even try it out before it's been physically created. That very closely matches our way of thinking and communicating.

Based on your experience, what percentage of digitalization projects are successful?

OVTCHAROVA There are no hard-and-fast statistics on that, but I suspect that the ratio is still low, since – to be absolutely honest – the approach taken is often wrong. The way innovative projects are supported in Europe is as if you had 200 hp, but drive in first gear. Why? Because the backers want to be certain that they start recouping money after a certain time. That's not reconcilable with innovation. If you really want to lead the way, you have to risk uncertainty. After all, being at the cutting edge is a leap in the dark.

How should a company tackle digitalization?

OVTCHAROVA There are no off-the-peg solutions – a customized approach is important. However, we have a very new methodology for the sequence of investments: Put actual problems "in the sandbox", use emerging technologies playfully, experiment, translate knowledge into abilities, build employees' digital literacy skills, and then initiate the concrete changes in business models, processes and infrastructure. Digital literacy skills – i.e. acquiring practical experience in using digital technologies – are vital for companies to gain a feel for what's truly essential. Once that practical experience has been gained, small and medium-sized enterprises in particular have very good opportunities in digitalization on account of their adaptivity.

Professor Ovtcharova, one last question: How do you handle digitalization in your private life?

OVTCHAROVA With a lot of inquisitiveness and courage, yet also with realism. There are risks you have to be aware of – in the use of data, for instance. But there's no way back. Digitalization and visualization of the invisible by virtual reality – that's our future. Our that future is beautiful.

»

The way innovative projects are supported in Europe is as if you had 200 hp, but drive in first gear.

«

JIVKA OVTCHAROVA

SHE IS OFTEN CALLED A "VISIONARY OF THE DIGITAL FUTURE"

I. Professor Dr. Dr.-Ing. Dr. h. c. Jivka Ovtcharova is professor at the Institute for Information Management in Engineering at the Faculty of Mechanical Engineering at the prestigious Karlsruhe Institute of Technology (KIT). She studied in Sofia and Moscow, gained doctorates in mechanical engineering and informatics, and worked at the Fraunhofer Society and in the automotive industry at General Motors.

II. Professor Ovtcharova advises companies and institutions, such as the European Union, as a digitalization expert.

III. Jivka Ovtcharova won the "Inspiring 50 Award 2019". It is presented annually by the "Women in Leadership" initiative to 50 inspiring role models, with the objective of promoting diversity in the tech industry.

IV. Professor Ovtcharova devotes particular attention to the issue of Smart Industry at small and-medium-sized enterprises at her university chair. Her team works at the interface between computer sciences, informatics and engineering, which also includes mechanical engineering, mechatronics, plant construction and building sciences.

V. The dedicated professor is working with euromicron's subsidiary ELABO on intelligent man-machine interaction in manufacturing.

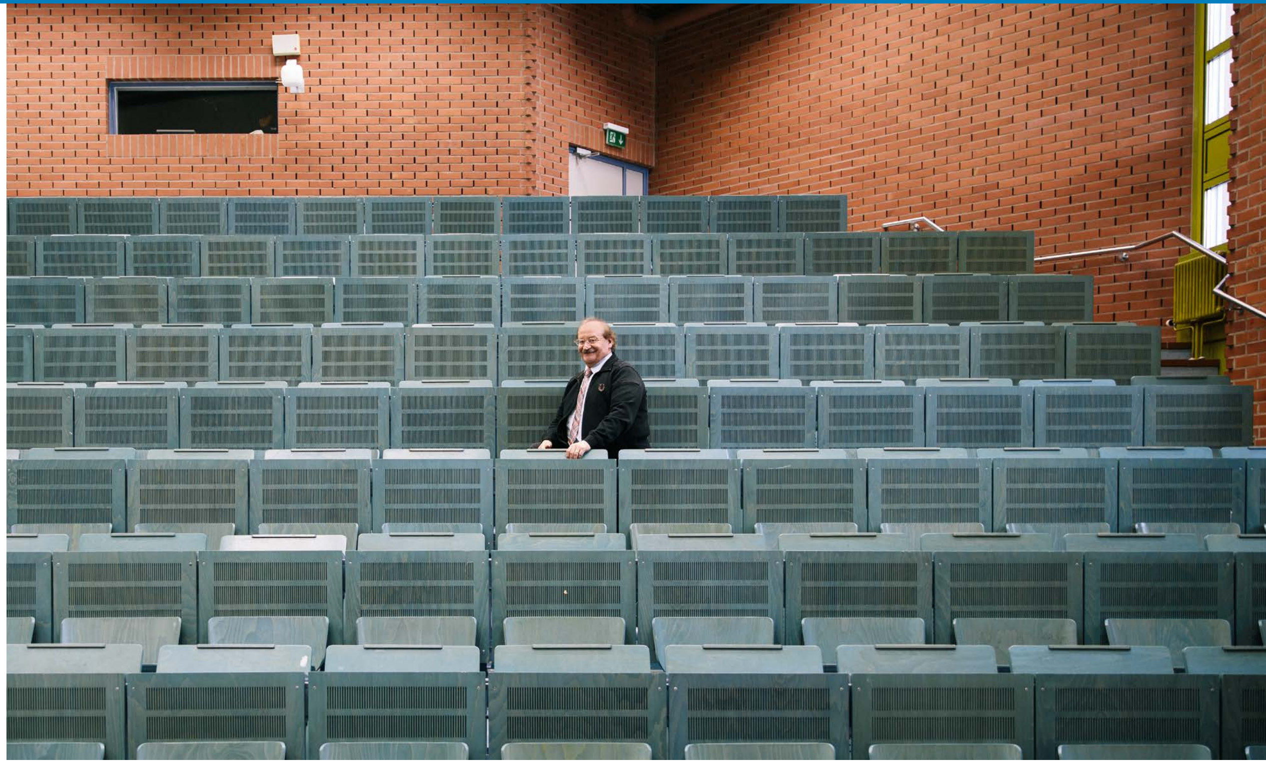
euromicron explains more about Smart Industry at:
www.youtube.com

A NEW WAY OF THINKING

»DIGITALIZATION USING SALAMI TACTICS«

When we use the term ecosystems nowadays, it's not necessarily biology we're talking about. The connected world with its diverse user groups and systems is like a constantly evolving biotope. Business and marketing models are being transformed as technology changes. Disruptive innovations are sometimes turning our existing understanding of supply and performance and relationships between market players on their head.

How does the digital economy work? Who can benefit from it? We asked Professor Rolf Weiber from the University of Trier, who researches digitalization-related issues such as the sharing economy, platform companies, Service 4.0 and big data.



Professor Rolf Weiber conducts research into the impacts of digitalization on enterprises.

Professor Weiber, what important digitalization trends are companies currently tackling?

WEIBER There's a list of technological mega trends, such as the market research firm Gartner Group draws up every year: artificial intelligence, the Internet of Things, immersive technologies, digital platforms and digital ecosystems. These technological changes influence the market and enterprises' relationships with their customers. They're spreading at a terrific pace and changing what companies and their customers are able to do. You can see that clearly from the topics of robotics and cloud computing.

Trying to strike a balance between traditional core business and new business models is a growing challenge. How can enterprises succeed in doing that?

WEIBER By communicating the benefits for customers clearly. Enterprises must know what end customers want. Marketing always aim to understand the end customer. And understanding means: When someone buys a food processor, they don't want to slice carrots finely, but rather eat a salad and healthily, try out recipes or impress their friends with good food. The appliance itself is of little interest. In future, manufacturers might perhaps provide their products free of charge and obtain revenue

through how long and intensively they are used – pay per use is such an approach. That means the technical solutions have to be examined in terms of their customer benefit and business models, and manufacturers have to develop a very high degree of empathy for their customers. Immersive technologies could help them achieve that, for example.

Small and medium-sized enterprises are currently still cautious about investing in powerful digital infrastructures or in connected production plants and buildings. Why?

WEIBER SMEs are very sensitive as regards the ratio between investment and economic efficiency. Development costs and investments in production plant must impact their bottom line quickly. Unlike large companies, they often lack the financial strength and so staying power. Smaller firms need a marketing strategy and proof of the benefits for customers from the outset. Yet the potentials are not always easy to recognize, especially in the case of complex and disruptive innovations. You can see that very clearly from historical quotes. Thomas J. Watson, the founder of IBM, said in 1943: “I think there is a world market for about five computers.” And in 1981, when asked about demand for RAM in PCs, Bill Gates still believed: “640K ought to be enough for anybody.” What I want to say is: These people were absolute experts in their field and still didn’t recognize the importance of change. So it has to be very visible what the benefits of digitalization might be. Only then will companies invest.

What other crucial obstacles do you see apart from that?

WEIBER The main obstacle is undoubtedly implementation. Many companies – especially SMEs – don’t have the technological skills. It’s all the more difficult for them to bring people on board. The more radical and disruptive the changes are, the greater is the rejection of them. A key issue as to whether digitalization succeeds is: How well does a company succeed in getting employees on the same page? The biggest obstacles are “knowing”, “being able to” and “wanting to”. That means: Do people know a technology and its advantages? Are they able to master it? And do they want to use it? People tend to stick with what they’re familiar with. And that’s why they need to be motivated and also given a budget to learn new things. Just investing in the hardware of technologies won’t be enough. Another obstacle: Implementation of a new technology is usually accompanied by a temporary dip in productivity. Managers in particular often don’t take the plunge because it seems like a failure initially.

» It has to be very visible what the benefits of #digitalization might be. Only then will companies invest. «

ROLF WEIBER

So what about the other side of the coin: the potentials?

WEIBER The potentials are naturally huge. First of all, there are the costs that can be cut by automating processes – enterprises can benefit enormously just from such optimization measures. In addition, small and medium-sized businesses in particular

“Owner-run companies tend to implement radical changes.”

are often flexible, creative and very customer-oriented. That fits well with the opportunities offered by the Internet of Things, new business models and Service 4.0. SMEs are often very sensitive to customer needs and develop solutions not only for, but even together with customers. And perhaps it’s the business personalities at owner-run SMEs who are also more able to truly implement radical changes and inspire people at their companies. At any rate, the hidden champions are all small and medium-sized enterprises that have achieved market leadership in their fields.

» #SMEs are often very sensitive to #customer needs and develop solutions not only for, but even together with customers. «

ROLF WEIBER

What areas of a company are easier to digitize? And which are more difficult?

WEIBER It’s usually easier in task areas that are very technology-based, such as in production and all areas where the benefit of new technology is immediately apparent. It’s more difficult in all areas where human experience is highly important and new technologies require a change in behavior or new skills from people. It’s often better to roll out changes gradually or department by department – digitalization using salami tactics – and gain initial experience you can then apply elsewhere. Of course, that’s easiest for very small start-ups who don’t have to change anything, but can gear themselves fully to new technologies from the word go.

What general conditions need to be met so that digitalization succeeds?

WEIBER A company must want to act hand in hand with customers. That’s called interactive value creation. Customers are on board in every step of the process – from development to use of products. That’s naturally a completely new role for companies.

If digital processes can be implemented technologically, will the economic benefits automatically ensue?

WEIBER No! Nothing’s automatic here! Every company needs an end-to-end focus tailored to its special technical aspects. That includes completely new strategy and marketing approaches, such as competitor information management, interactive marketing, provider integration and usage marketing. Albert Einstein put it in a nutshell: “We cannot solve our problems with the same level of thinking that created them.” We’re in a sort of mind trap and have to break down familiar mechanisms. That’s not so easy.

Professor Weiber, what personally concerns you most about digitalization?

WEIBER The new technologies inspire and fascinate me, they make a lot of things easier and are useful. Yet there’s also the question of whether people suffer from a loss of competence, for example because we no longer have to know things, but instead will be able to obtain real-time, context-specific information from smart assistants. But how do we assess something when we no longer have any knowledge about it? What’s the basis for that? And doesn’t that mean a loss of independence and autonomy? Some things that are now sold to us as new are already old hat. What definitely needs to change is how we think. Conveying that is an important concern for me.

HAS DEEP INSIGHTS INTO PRACTICE

I. Professor Dr. Rolf Weiber researches and teaches at the Department of Business Management at the University of Trier. His focus is on high-tech marketing, industrial business-to-business marketing and the Internet economy.

II. He is Executive Director of the Competence Center E-Business (ceb.uni-trier.de) and Director of Studies at the Trier Administration and Business Academy (VWA Trier).

III. Professor Weiber has had a pretty untypical career: After training as a retail dealer and studying business management on the job at Koblenz Administration and Business Academy, he studied economics and business education in Mainz. He gained his doctorate on the subject of service in large-scale industrial plant construction.

IV. Professor Weiber worked as a system engineer at IBM for several years before embarking on an academic career and qualifying as a professor in Münster on the subject “diffusion of telecommunications”. In particular his intensive vocational experience in various areas of the economy now enrich his research activity.

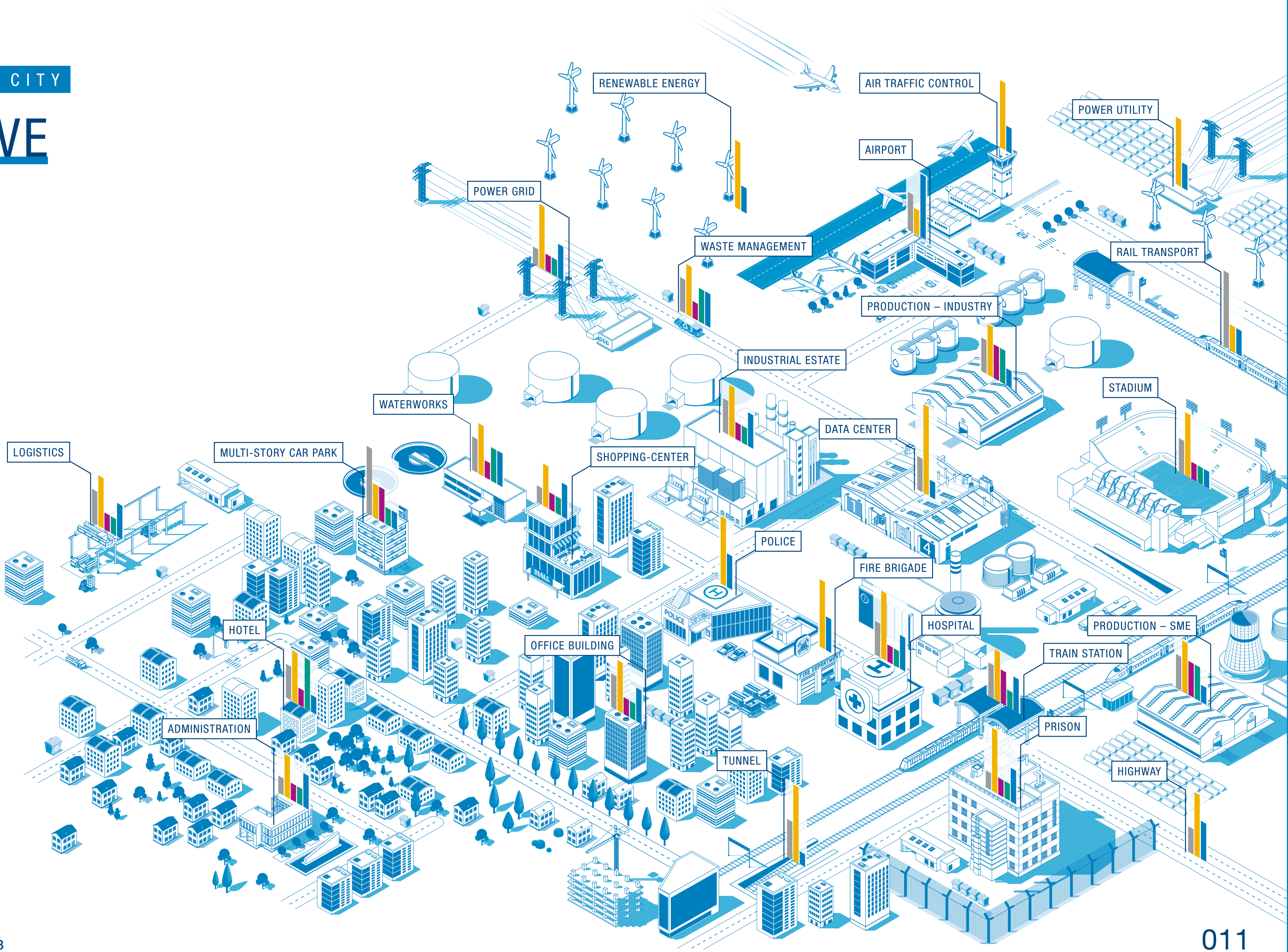
euromicron explains how smart buildings are gradually equipped at:
www.youtube.com

EUROMICRON SMART CITY

WE PAVE THE WAY

Digitized processes are built up of various levels: DEVICES AND SENSORS receive and send data via NETWORK INFRASTRUCTURES. This data converges on PLATFORMS and is used in APPLICATIONS. Finally, the interaction of all components is ensured by SERVICES.

euromicron unites the expertise required for that under one roof. In all our solutions, we combine the most sensible and cost-effective elements from every level. In that way we create customized solutions that pave concrete paths to digitalization for our customers.



WE HAVE THE EXPERTISE

A digital solution comprises up to five levels that build on each other and have a wide range of different hardware and software components. euromicron offers products and services at all levels and combines them to create highly powerful IoT systems. As a result, we enable our customers to tap the potentials of digitalization.

SENSORS AND DEVICES

Sensors and devices are crucial factors in the quality of the data that is gathered and analyzed. We know the state of the art, implement cost-effective solutions that protect investments, and provide vendor-independent consulting. Examples are:

- Cameras
- Fire and burglar alarms
- Sensors
  - for measuring filling levels
  - for air and water quality
  - for geolocation
  - for pipeline monitoring
  - ...

INFRASTRUCTURE

Whether wireless-based or wired: We implement high-performance network infrastructures and ensure their availability, confidentiality and integrity by means of appropriate security technologies. We make some of the components ourselves. The result is networks which have a quality and security surpassing the solutions from customary network providers and are even suitable for very challenging tasks.

We create the following to suit our customers' individual needs:

- LoRaWAN wireless and radio relay networks
- IP-based LAN and WLAN networks (office and industrial networks)
- PDH, SDH, IP, MPLS wide area networks
- FTTx network infrastructures

PLATFORMS

We pool the data from sensors and terminal devices that is gathered by the selected infrastructures on platforms we have developed in-house. We make it available for visualization and storage or, via interfaces, for analysis and use in applications. As a result, data is turned into information for secure and intelligent applications in the smart city, smart building and smart industry, as well as for assistance systems and processes at intelligent workplaces and in production.

APPLICATIONS

Apps permit intelligent use of data. We develop some of them ourselves – on a customer-specific basis or for general use. We provide interfaces for the vast majority of the apps that process data from systems we have developed. The result is an ecosystem of applications based on the industry know-how and expertise of our customers and development partners.

SERVICES

Services – from concept design to operation – are part of the digitalization activities we offer. As part of that, we also take over performance of end customer services on behalf of other technology vendors. Our Competence Centers and Germany-wide footprint ensure we are close to customers and have short response times. Examples from our range of services:

- Consulting
- Cybersecurity concepts
- Training
- Servicing and maintenance
- Managed service and operation

WE TAP POTENTIALS

We implement digitalization with our customers step by step. As experts with in-depth know-how, we contribute our competences to many new and challenging projects. As a result, we gather the experience today that our customers need for connecting tomorrow's worlds of life and work.

SERVICES
APPLICATIONS
PLATFORMS
INFRASTRUCTURE
SENSORS AND DEVICES

ON TRACK FOR SECURITY

Training stations are often regarded as hot spots for violence and murky and unsafe places in cities. In order to make the millions of travelers feel safe at any time of the day or night, Deutsche Bahn, the German government and police are taking a whole bundle of measures. One of them is better video surveillance: Up to €85 million is to be spent on expanding video installations, mainly at large stations. As part of that, Deutsche Bahn is relying on the expertise of its longstanding project partner euromicron. One example is Hamburg Central Station, where our experts implemented leading-edge IP video surveillance along with the related network technology. 190 cameras and 30 switches were installed, 5,000 meters of fiber-optic cabling were laid, and underground construction work at the platforms was even carried out. All that was accomplished reliably, without interruption to ongoing operations and in a very tight timetable. And travelers at the central stations in Cologne and Hanover are also already benefiting from euromicron's video security concept.

RUNNING SMOOTHLY ...

Water is life. The drinking water supply and sewerage systems are critical infrastructures in every society. Water management is now controlled and monitored digitally for the most part. Networks, switching systems and security facilities ensure top-class water quality and sustainable waste water management.

euromicron is supporting AWS GmbH, a provider of waste water, water and other services and member of the GELSENWASSER Group – in modernizing its multi-site enterprise network and digitizing business-critical applications. The focus of its work is on network security and fail-safe operation. euromicron's experts are implementing tailored network and security infrastructures at all of AWS' 30 locations. They include, for example, powerful broadband connections, VPN access and access switches. Systems for IT security, identity management and network monitoring will also be rolled out. euromicron's services range from concept design and installation to service and maintenance. The good result: Water's running smoothly at AWS.

193,686 METERS OF CABLE AND OTHER HIGHLIGHTS

Living by the water is in. Hamburg's HafenCity in particular is well-known for trendy buildings with a high technical standard. euromicron implemented all the network, electrical and security technology for the 22,500 m² Campus Futura. A hotel, the residential buildings and commercial areas were integrated in the networks. A total of 193,686 meters of cable were laid as part of that. The project's special highlights include a fire alarm system with 1,620 participants and two control panels, as well as ten EVlink charging stations for e-cars. The contract was accomplished in the space of just 17 months. Campus Futura is now a prime example of forward-looking urban development and has also been awarded the gold Ecolabel for "sustainable construction in HafenCity".

THE WORLD OF CONSTRUCTION MACHINERY

Nothing less than an entire universe of construction machinery, or at least that is the idea of the Kiesel Group: Over an area of 160,000 m², it has established the Coreum – an unrivaled innovation center that sets trends in the industry. Equipped with leading-edge network and security technology, it is to be home to the whole "world of construction machinery".

The network specialist euromicron designed and delivered an all-round solution using a cloud-based network architecture for the innovation center. It is offered as a managed service, is intuitive to use, and enables company networks to be managed from a central dashboard. To enable that, all the new buildings on the campus were first equipped with cutting-edge network infrastructures, such as fiber-optic cables, switches and WLAN access points. As part of the security concept, euromicron integrated IP video surveillance cameras in the building networks and, last but not least, installed a high-performance firewall with a rights management concept. An unusual aspect for such a complex project: Turnkey handover took place around a month earlier than scheduled.

30 % | 30 % | 20 % | 10 % | 10 %

THEREFORE TEST, WHO WANTS TO BIND HIMSELF FOREVER ...

That is precisely what Colt, the global provider of network and telecommunications services, had long since done before it decided to extend its service partnership with euromicron. Colt is Europe's leading provider of business communications and has cooperated closely with euromicron's subsidiary telent since 2007. euromicron helps the company ensure short service times and a high network quality. The fine relationship has now been strengthened with a new Field Service Agreement.

40 % | 30 % | 10 % | 10 % | 10 %

SERVICES
APPLICATIONS
PLATFORMS
INFRASTRUCTURE
SENSORS AND DEVICES

TAKE-OFF!

Deadlines are of the essence in aviation. So passengers often get jitters when there are delays at airports' screening checkpoints. Security technology that works is vital to ensuring rapid processes at airports. To ensure it functions perfectly, the company Rohde & Schwarz commissioned euromicron with maintaining and repairing 300 high-tech security scanners. The devices are based on millimeter-wave technology and are being rolled out successively at all German airports.

Key criteria for why euromicron was awarded the contract were its extensive experience in the fields of critical infrastructures and predictive maintenance. Our experts also impressed with the specialized Competence Center: The service staff there are on hand to carry out small repairs at short notice – 24 hours a day, 7 days a week.

5 | 5 | 90 %

CHARITÉ NETWORKED

The Charité is one of the largest university clinics in Europe. It is not only a leader in the field of medicine, but can also claim to be a trend-setter when it comes to digitalization. According to an assessment by the Healthcare Information and Management Systems Society (HIMSS), the Charité is making excellent progress toward becoming a paperless hospital. That requires a powerful network infrastructure. The clinic sets store by the innovative network components from its long-standing partner, the euromicron Group. euromicron's components ensure reliable data transfer in the central backbone, which links the locations dotted around Berlin. The building control technology uses our rugged industrial switches, while the requirements for electrical isolation at intensive care beds are fulfilled by compact micro-switches.

60 % | 30 % | 10 %

TO OUR SHAREHOLDERS

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BETTINA MEYER
Spokeswoman of the
Executive Board

JÖRN TIERWEILER
Business Transformation

DR. FRANK SCHMITT
Chief Technical Officer

Foreword by the Executive Board

Dear Ladies and Gentlemen, Dear Shareholders,

Our company made big strides forward in fiscal year 2018 and improved its operating performance: We generated a positive cash flow from operating activities of €3.3 million, a sharp improvement of €4.9 million over the previous year (€ –1.6 million). We have thus made perceptible progress toward our strategic objective of “cash before sales”. We achieved our recently adjusted forecast for 2018 as a whole, posting consolidated sales of €318.0 million and an operating EBITDA margin of 2.0%.

2018 was dominated overall by the euromicron Group’s intensive process of transformation. We made further investments in future fields – whether our Smart Industry solutions, software solutions for “Smart Buildings” or optimization by means of predictive maintenance. We also identified structural deficits at individual divisions of the “Smart Buildings” segment and made appropriate adjustments, which we completed by the end of fiscal year 2018. In this context, we refreshed our management levels, sales controlling and personnel structures in a targeted manner. All in all, optimization of the Group’s structures resulted in special costs totaling €4.6 million, which accordingly reduced our earnings.

» “Cash before sales” – that has top priority for us now and moving ahead. «

BETTINA MEYER

As a result, we have created a healthy foundation for mastering future challenges. Since the far-reaching reorganization was completed by the end of 2018, Mr. Trierweiler will depart from the Executive Board as planned effective April 30, 2019.

Dr. Frank Schmitt has strengthened our Executive Board team as Chief Technical Officer (CTO) with his specialist expertise since February 2019. Frank Schmitt is a proven digitalization expert and has many years of experience in solutions for business customers in the fields of digital production, digital buildings and digital mobility solutions. Against the background of the dynamic development taking place in digitalization, we are currently carrying out further adjustments to the Group's strategic scope with the new composition of our Executive Board. After conclusion of the strategic planning sessions we will announce a medium-term strategy marked by further intensification.

Our customers, including very many companies with a medium-sized character, increasingly recognize the potentials new technologies can deliver. That means demand for our integrated, end-to-end solutions is growing. We still see great potential in our market, also because many enterprises have to date been cautious in digitizing their business models and making the necessary investments. Backed by our pinpointed know-how, we help companies turn their ideas into business models of the future.

As part of that, we cater for all levels in the field of digital solutions: sensors and terminal devices, infrastructure, platforms, applications and service. In that way, we offer tailored solutions from a single source – from design of the concept, installation, to maintenance and service.

» As a provider of digital software-based solutions, we set store by high-margin service business. «

DR. FRANK SCHMITT

We will continue to train our strategic focus rigorously on the growth market of "digitalization" and stick to our maxim of "cash before sales" so as to ensure the company's sustainable and profitable growth. As part of that, we are increasingly moving away from becoming a manufacturer of technical components and evolving into a provider of digital software-based solutions.

In that respect, we are focusing more strongly on combining our physical business with solution business in promising new market segments. We intend to gradually expand the share that high-margin services contribute to our overall sales. For instance, we are working to gear our Group companies increasingly to providing digital and other services. In addition, we aim to offer even more services from a single source and, to enable that, we are establishing specialized assembly teams in the field of "Smart Buildings", for example.

» By completing our reorganization by the end of 2018, we have improved the conditions for further growth. «

JÖRN TIERWEILER

A further key component is still qualified expert staff: We are investing in specialists who strengthen our competences in developing digitized solutions. We have also initiated a raft of initiatives to recruit competent employees and open up suitable further training and development opportunities for our junior employees and managers. We recently launched a cooperation with FOM University of Applied Sciences in Frankfurt/Main so that junior staff can gain qualifications for our task areas by means of a course of dual study. The diverse range of benefits for employees is rounded off by a company pension scheme and sport and healthcare offerings.

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Apart from internal further training and education, external growth is a key pillar in our strategy. We continuously examine strategic options so as to suitably expand our skills portfolio in future fields. We succeeded very well in that with the takeover of the IT security specialist KORAMIS. As a result, we have expanded our value chain to include cyber-security for critical infrastructures and industrial infrastructures. All areas of the economy are now shaped by the high pace of innovation and increasing networking of plant and systems and so integrated, efficient IT security concepts have become vital.

Digital infrastructure solutions from euromicron are now critical to success in many areas. We would like to present one of our many important projects: Hamburg's HafenCity sets new standards in the Hanseatic city. Part of it is the Campus Futura, which unites a youth and family hotel and residential and commercial areas over 22,500 square meters. While visitors and residents enjoy the pleasant environment and view of Baaken Harbor, euromicron technology is working behind the wings: 194 km cables were laid there, while 1,620 sensors help detect fires promptly and support danger management. There are also ten charging stations for parking e-cars.

HafenCity, and in particular Campus Futura, stand for the dawn of a digital future in Hamburg. Digitized network structures will shape future urban development. Among other things, smart building technology will create the conditions for danger management of the future: with cutting-edge fire prevention systems, doorbell and video intercom systems, or digitally controlled lighting for all interior and outside areas.

Campus Futura in HafenCity is just one of our projects in the markets of “Smart Buildings”, “Critical Infrastructures” and “Smart Industry” in which euromicron connected the worlds of life and work in 2018. With its end-to-end solutions, euromicron ensures greater convenience, safety, security and an energy-efficient community life.

Fiscal year 2018 helped us make advances, and we will take that momentum with us as we continue on our path toward the digital future.

We thank all employees for their commitment in the past fiscal year. Thanks to their great efforts and dedication, they play a major part in the euromicron Group's successful transformation. Special thanks also go to our shareholders for their continuing trust. We would be delighted if you continue to accompany us on our journey.

Frankfurt/Main, April 2019

Your Executive Board

Bettina Meyer

Bettina Meyer

Frank Schmitt

Dr. Frank Schmitt

Jörn Trierweiler

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Report of the Supervisory Board

Dear shareholders,

The Supervisory Board of euromicron AG discharged the tasks incumbent on it under the law, the Articles of Association, its bylaws and the corporate governance principles in the year under review.

Changes on the Supervisory Board and Executive Board

Ms. Evelyne Freitag is Chairwoman of the Supervisory Board, her deputy is Mr. Klaus Peter Frohmüller, and the further member is Dr. Martina H. Sanfleber. The former Supervisory Board members Rolf Unterberger and Dr. Alexander Kirsch resigned from their seats on May 22, 2018, and May 29, 2018, respectively. Mr. Klaus Peter Frohmüller and Dr. Martina H. Sanfleber were appointed as their successors pursuant to the orders by Frankfurt/Main District Court dated May 29, 2018, and June 5, 2018, respectively. The regular term of office of Ms. Evelyne Freitag expires at the end of the Ordinary General Meeting in 2021. Under the law, the regular term of office of the two court-appointed Supervisory Board members expires at the end of the Ordinary General Meeting in 2019. All the members of the Supervisory Board are independent within the meaning of Section 5.4.2 Sentence 2 of the German Corporate Governance Code.

On April 30, 2018, the Supervisory Board appointed Mr. Jörn Trierweiler to the Executive Board as successor to Jürgen Hansjosten, who will depart effective that date. Mr. Trierweiler, whose term of office will expire on April 30, 2019, assumed responsibility for Operations and IT. The Supervisory Board appointed Dr. Frank Schmitt as a third member of the Executive Board effective February 1, 2019. Dr. Schmitt is responsible for Operations, Technology, Product Development and IT. Ms. Bettina Meyer remains Spokeswoman of the Executive Board.

Cooperation of the Executive Board and Supervisory Board

The Supervisory Board regularly advised the Executive Board and monitored how it managed the company. The Supervisory Board was directly integrated in all decisions of fundamental importance for the company at an early stage. In this regard, the Executive Board met its obligations to provide information and regularly, promptly and comprehensively informed the Supervisory Board in writing and orally about matters of relevance to the company and Group relating to its current situation, in particular its financial position and results of operations, strategy, planning, development of business, the risk situation and risk management, compliance and important business transactions of the company and its subsidiaries. The members of the Supervisory Board took an intensive look at the reports by the Executive Board and contributed their own suggestions. On the basis of the Executive Board's reporting, the Supervisory Board reviewed the development of business and discussed important decisions and matters for the company. All information from the Executive Board was examined for plausibility and critically appraised by the Supervisory Board. Deviations in business development from the plans were presented individually to the Supervisory Board and dealt with intensively by it. The business transactions and measures that are of fundamental importance to the company and for which the Executive Board therefore requires the consent of the Supervisory Board pursuant to the bylaws were discussed by the Supervisory Board with the Executive Board directly and promptly and examined in detail by it. The Supervisory Board consented to each of the submitted business transactions and measures. The half-yearly and quarterly financial reporting was also discussed with the Executive Board. In addition, the Supervisory Board was in regular contact with the Executive Board and obtained information on the current development of business and the main transactions and occurrences. Since the Supervisory Board only consists of three members, there are no committees.

Focus of deliberations in fiscal 2018

The Supervisory Board convened five meetings and six telephone conferences in fiscal 2018. In its five regular meetings on March 22, June 12, July 6, November 22 and December 18, 2018, the Supervisory Board discussed the company's planning, economic situation and strategic development, as well as the progress made in implementing the reorganization measures at the Group, in the presence of the Executive Board. The Supervisory Board held deliberations as part of telephone conferences on January 12, March 15, March 27, May 7, August 6 and November 7, 2018. All members of the Supervisory Board at the time took part in all of these meetings and telephone conferences. In addition, the Chairwoman and the members of the Supervisory Board discussed impending projects and strategic issues with the Executive Board in one-on-one talks that were held as warranted. In compliance with the recommendation of the German Corporate Governance Code, the Chairwoman of the Supervisory Board held talks on Supervisory Board-specific matters at the request of investors.

The other focal subjects of the Supervisory Board meetings included the following in particular:

- Review and ongoing adjustment of the Group's strategic orientation
- M&A activities (potential acquisitions and divestments)
- Adoption of the corporate planning for the fiscal years 2018 to 2022
- Implementation of the reorganization and integration process
- Human resources policy and personnel development, including successors to departing Supervisory Board members and moves or additions to the Executive Board
- Data protection and security
- The Group's financing structure
- Risk management and the internal control system of the company
- Compliance activities and organization

The Supervisory Board satisfied itself that the Executive Board managed the company's business carefully in the past fiscal year and took necessary measures in good time. The efficiency of the Supervisory Board's work and decision-making processes was regularly evaluated and optimized.

Corporate Governance

The Supervisory Board and Executive Board analyzed the recommendations and suggestions of the “German Corporate Governance Code” (DCGK), the amendments to it as published on April 24, 2017, and its implementation at euromicron AG, adopted an updated declaration on conformance in accordance with Section 161 of the German Stock Corporation Law (AktG) on December 8, 2018, and updated that declaration on March 28, 2019. The declarations on conformance are available at all times on the company’s homepage.

There were no conflicts of interest on the Supervisory Board in the year under review.

Independent auditor

The independent auditor for fiscal year 2018 elected for the company and the Group by the 2018 General Meeting is PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main. The certified accountants are Ms. Diana Plaum (since fiscal year 2015) and Mr. Thomas Heck (since fiscal year 2018), who is responsible for auditing the financial statements.

Annual financial statements of euromicron AG and the Group

The independent auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, audited the annual financial statements, which were prepared by the Executive Board in compliance with the rules of the German Commercial Code (HGB), and the management report for fiscal year 2018. The auditor issued an unqualified auditor’s report for them. The consolidated financial statements of euromicron AG for the fiscal year 2018 and the group management report were prepared in accordance with Section 315e HGB (German Commercial Code) on the basis of the International Financial Reporting Standards (IFRS), as are applicable in the European Union. The consolidated financial statements and group management report for the past fiscal year were also issued with an unqualified auditor’s report.

The financial statement documents and audit reports for euromicron AG and the Group were available to the Supervisory Board in good time before the balance sheet meeting on April 10, 2019. The Supervisory Board examined the financial statements and the management report, the consolidated financial statements and group management report, and the non-financial group report of euromicron AG and the reports of the auditors and concurs with the auditor’s findings following detailed discussion with the Executive Board. At the balance sheet meeting of the Supervisory Board on April 10, 2019, the auditors reported extensively on the main results of their audit of the single-entity and consolidated financial statements, as well as the company’s internal control and risk management system and compliance structures, and answered supplementary questions by the Supervisory Board. There were no objections to this report.

In its meeting on April 10, 2019, the Supervisory Board therefore gave its consent to the result of the audit by the independent auditor and the annual financial statements of euromicron AG prepared by the Executive Board and approved the consolidated financial statements.

Thanks

The Supervisory Board wishes to express its thanks to the members of the Executive Board, the employees and the employee representative bodies of the euromicron Group for their personal commitment and achievements in fiscal 2018. Thanks to their vigor and dedication, they all helped ensure that the euromicron Group developed stably.

Frankfurt/Main, April 10, 2019

For the Supervisory Board:

Evelyne Freitag
Chairwoman of the Supervisory Board

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Corporate governance

1 Corporate Governance Report

1.1 Composition and workings of the Executive Board and Supervisory Board

In compliance with the requirements of the German Stock Corporation Law (AktG), euromicron AG has a dual management system consisting of the Executive Board and the Supervisory Board.

1.1.1 The Supervisory Board

The Supervisory Board consists of three members and is currently made up solely of shareholder representatives in accordance with Section 96 of the German Stock Corporation Law (AktG). Ms. Evelyne Freitag is Chairwoman of the Supervisory Board, her deputy is Mr. Klaus Peter Frohmüller, and the further member is Dr. Martina H. Sanfleber. The regular term of office of the Chairwoman expires at the end of the Ordinary General Meeting in 2021. The regular term of office of the two other members expires at the end of the Ordinary General Meeting in 2019.

The composition of the Supervisory Board corresponds to the following general requirements and concrete objectives for its composition. These take into account the recommendations of the German Corporate Governance Code (referred to as "DCGK" or "Code" in the following) and are as follows:

- General requirements for members of the Supervisory Board
  Every member of the Supervisory Board must fulfill the requirements defined by the law and Articles of Association to become a member of the Supervisory Board (cf. in particular Section 100 (1) to (4) of the German Stock Corporation Law (AktG)). Every member of the Supervisory Board must have the knowledge and skills required to properly discharge the tasks incumbent on him/her under the law and the Articles of Association.

  At least one member of the Supervisory Board must have expertise in the fields of preparing or auditing financial statements within the meaning of Section 100 (5) of the German Stock Corporation Law (AktG).

- Concrete objectives for the composition of the Supervisory Board
  The Supervisory Board has specified that, ideally, the members of the Supervisory Board in its entirety should have the following qualifications and qualities; a combination of several qualifications and qualities in one person is also possible (competence profile):

  At least two independent members within the meaning of Section 5.4.2 Sentence 2 of the German Corporate Governance Code are to belong to the Supervisory Board.

  The members of the Supervisory Board are to have different educational backgrounds and expertise from different areas of business life. In particular, expertise in the fields of business management, preparing and auditing financial statements and in banking and finance is desirable.

  At least one member with expertise in the field of the euromicron Group's international business is to sit on the Supervisory Board.

  The composition of the Supervisory Board is to represent as broad a range of experience of life as possible. No member of the Supervisory Board is to be older than 70 years of age.

  Anyone who is expected to be subject to a conflict of interests frequently or permanently in exercising his or her office is not to be elected as a member of the Supervisory Board.

The competence profile is met fully with the Supervisory Board's current composition.

Pursuant to its resolution dated March 12, 2019, the Supervisory Board defined the target of one-third for the ratio of women on the Supervisory Board by December 31, 2023. The ratio of women of two-thirds currently exceeds the defined target.

In the opinion of the Supervisory Board, all its members are independent within the meaning of Section 5.4.2 of the Code. Where members of the Supervisory Board hold a high-ranking post at other companies with which euromicron AG – directly or indirectly – has business relationships, these transactions are conducted at terms and conditions as with third-party companies and do not affect the independence of the affected members of the Supervisory Board.

There were also no conflicts of interest in fiscal year 2018.

The Supervisory Board advises the Executive Board in running the company, supervises its activities and is directly integrated in decisions of fundamental importance for the company. The Executive Board agrees the company's business development and strategy as well as planning and implementation of the latter with the Supervisory Board and discusses these in regular meetings together with the Supervisory Board.

The Supervisory Board examines the annual financial statements, the consolidated financial statements, the respective management report and the proposal on appropriation of the net retained profits. It deals with the quarterly and half-yearly reports and is also responsible for adoption of the annual financial statements and approval of the consolidated financial statements, taking into account the audit reports of the independent auditor.

The Supervisory Board also deals with compliance with legal requirements, official regulations and internal guidelines on conduct by the company.

Furthermore, the Supervisory Board has the task of appointing the members of the Executive Board, setting the number of its members and defining spheres of authority. The Supervisory Board has defined rules for the work of the Executive Board in bylaws, where this is not already stipulated by the Articles of Association. In particular, the Supervisory Board has defined which important decisions by the Executive Board – such as large acquisitions, divestments and financial measures – require its consent.

The Chairman/Chairwoman of the Supervisory Board coordinates its work. Supervisory Board committees have not been formed.

The persons making up the Supervisory Board are presented in Section 1.1.1 of the Corporate Governance Report and in the section **"Supervisory Board and Executive Board"** P.157 dargestellt. The specific work of the Supervisory Board is presented in the section **"Report of the Supervisory Board"** P.019 The remuneration of the members of the Supervisory Board is explained in the section **"Compensation Report"** P.076.

1.1.2 The Executive Board

The members of the Executive Board manage the company's business and run it in joint responsibility with the goal of creating sustainable value. They develop the strategic orientation as well as annual and multi-year planning, decide on fundamental matters relating to business policy, agree these with the Supervisory Board and ensure they are implemented. The members of the Executive Board are assigned individual spheres of authority by the Supervisory Board, meaning there are clear responsibilities.

The Executive Board initially comprised two members – Ms. Bettina Meyer and Mr. Jörn Trierweiler – and was expanded to three members when Dr. Frank Schmitt joined it effective February 1, 2019. The Supervisory Board appointed the Executive Board member Ms. Bettina Meyer as Spokeswoman of the Executive Board in 2015. The duties of the Spokeswoman of the Executive Board include coordinating the work of the Executive Board, in particular as regards chairing its meetings, and representing the company.

The Executive Board prepares the quarterly and half-yearly financial statements of the company, the annual financial statements of euromicron AG and the consolidated financial statements. In addition, the Executive Board ensures compliance with legal requirements, official regulations and internal guidelines on conduct at the company and works to ensure compliance with them at the companies in the euromicron Group as well. You can find more information on the compliance program and related measures in fiscal 2018 in the section "Compliance Report" P.027.

The Executive Board and Supervisory Board work closely together to the benefit of the Group. The Executive Board regularly informs the Supervisory Board promptly and extensively about all matters of relevance to the company as a whole relating to strategy, planning, development of its business, financial position and results of operations, commercial risks and compliance.

In filling management posts, the Executive Board ensures adequate representation of women, as well as a wide range of skill structures (diversity).

The concrete targets for the ratio of women on the Executive Board in accordance with Section 111 (5) of the German Stock Corporation Law (AktG) and for the ratio of women in the management tier below the Executive Board in accordance with Section 76 (4) of the German Stock Corporation Law (AktG) are described in the subsection "Targets" in the Corporate Governance Declaration. P.026

The persons making up the Executive Board are presented in the section **Supervisory Board and Executive Board** P.157 The remuneration of the members of the Executive Board is explained in the section **Compensation Report** P.076.

1.2 Shareholders and General Meeting

All shares in euromicron AG are equal and in principle each share entitles the holder to one vote. Shareholders exercise their voting right, in addition to their other rights under the law and Articles of Association, before or during the General Meeting.

The annual Ordinary General Meeting is held within the first eight months of a fiscal year in accordance with Section 14 of the Articles of Association. The Executive Board submits the annual financial statements, the management report, the consolidated financial statements and the group management report to it. The General Meeting decides on the appropriation of profits, as well as discharge of the Executive Board and Supervisory Board, and regularly elects the shareholder representatives on the Supervisory Board. The General Meeting also decides on changes to the Articles of Association, measures relating to changes in equity, company agreements and other important commercial measures, which are then implemented by the Executive Board.

The General Meeting is convened along with details of the agenda and an explanation of the rights of shareholders. Documents that have to be made accessible and relate to the items on the agenda can be obtained on the homepage of euromicron AG.

1.3 Transparency

Our goal is to provide institutional investors, private shareholders, financial analysts, employees and interested members of the public equally with regular and up-to-date information on the company's situation. We publish press releases, ad-hoc announcements, voting rights notifications, all financial reports and other important information on our homepage. All documents relating to our General Meeting can also be found there. We publish details on recurring events, such as the date of the next General Meeting, accounts press conferences, analysts' conferences or quarterly reports, in a financial calendar, which is published on the company's homepage.

In accordance with Article 19 of the Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), members of the Executive Board and Supervisory Board or persons related to them are obligated to report transactions of shares in euromicron AG that require disclosure if the value of the transactions within a calendar year is €5,000.00 or more (directors' dealings). There were no dealings that required reporting in fiscal 2018.

1.4 Independent auditor

PricewaterhouseCoopers (PWC) was appointed as the independent auditor of the financial statements of euromicron AG and as the auditor of the consolidated financial statements for the first time in 2010. The responsible audit partner since fiscal 2018 has been Mr. Thomas Heck.

2 Corporate Governance Declaration

The Corporate Governance Declaration in accordance with Section 289f or Section 315d in conjunction with Section 289f HGB (German Commercial Code) is part of the management report of euromicron AG and the group management report. In accordance with Section 317 (2) Sentence 6 HGB (German Commercial Code), the disclosures specified in Section 289f and Section 315d HGB (German Commercial Code) do not have to be included in the audit.

- Wording of the declaration on conformance (Section 161 of the German Stock Corporation Law (AktG)) by euromicron AG dated March 28, 20199

“The Executive Board and Supervisory Board of listed stock corporations are obligated under Section 161 of the German Stock Corporation Law to declare once a year that their company has complied and will continue to comply with the recommendations of the government commission on the German Corporate Governance Code or which recommendations it has not applied or will not apply. In the latter case, reasons must be given why the company did not and will not comply with the recommendation in question.

The Executive Board and Supervisory Board of euromicron AG issued the last declaration on conformance in accordance with Section 161 of the German Stock Corporation Law on December 8, 2018.

The following declaration relates for the period from December 9, 2018, to the recommendations of the Code in its version dated February 7, 2017, as published on April 24, 2017, in the Federal Official Gazette.

This having been stated, the Executive Board and the Supervisory Board of euromicron AG declare in accordance with Section 161 of the German Stock Corporation Law:

euromicron AG complied and will comply with the recommendations of the government commission on the German Corporate Governance Code, with the following exceptions:

1. Individualized presentation of the compensation for Executive Board members (Section 4.2.5 (3) and (4) DCGK)
In accordance with the recommendation in Section 4.2.5 (3) and (4) DCGK, the compensation for Executive Board members is to be disclosed in individualized form using model tables provided as appendices to the Code. The company currently deviates from Section 4.2.5 (3) and (4) of the Code and will continue to do so in future.

Reason:
The compensation for Executive Board members is disclosed in compliance with statutory provisions. The company does not provide any further disclosures on or breakdowns of the compensation using the model tables due to the work involved in this change and the extra administrative overhead.

2. Drafting of contracts with Executive Board members, severance pay cap (Section 4.2.3 (4) DCGK)
Pursuant to the recommendation in Section 4.2.3 (4) DCGK, in concluding contracts with Executive Board members, care shall be taken to ensure that severance payments made to an Executive Board member on premature termination of his/her contract do not exceed his/her compensation for the remaining term of the employment contract and at most the value of two years’ compensation (severance pay cap). The company currently deviates from Section 4.2.3 (4) of the Code and will continue to do so in future for the term of the current contracts with Executive Board members.

Reason:
In the view of euromicron AG, the deviation from the recommendation in Section 4.2.3 (4) DCGK is in the company’s interests. In the absence of an important reason, a contract with an Executive Board member can only be terminated prematurely by being rescinded through mutual consent. Consequently, negotiations on the level of the severance pay when an Executive Board member departs would not be ruled out by a severance pay cap. Moreover, the leeway in negotiations on the departure of an Executive Board member would also be constricted if a severance payment cap were agreed, which may be disadvantageous in particular if there is not clarity as to whether there is an important reason for the member being removed.

3. Formation of Supervisory Board committees (Section 5.3.1 to 5.3.3 DCGK)
The Supervisory Board of euromicron AG has not formed any committees in the past and will also not do so in future, meaning euromicron AG deviates from the recommendations in Sections 5.3.1 to 5.3.3 of the German Corporate Governance Code.

Reason:
In compliance with the Articles of Association, the Supervisory Board of euromicron AG consists of just three members. The formation of committees would not make the work of the three-member Supervisory Board easier, since the committees which adopt decisions would also have to have at least three members of the Supervisory Board on them.

4. Reporting
(Section 7.1.2 Sentence 4 DCGK)
Contrary to the recommendation of Section 7.1.2 Sentence 4 of the German Corporate Governance Code the consolidated financial statements for the fiscal year 2018 will not be made publicly accessible within 90 days of the end of the fiscal year.

Reason:
In principle, the company complies with the recommendation to publish the consolidated financial statements and group management report within 90 days of the end of the fiscal year (Section 7.1.2 Sentence 4 DCGK). Due to the implementation of personnel and structural measures at the "Smart Buildings" segment as planned in the fourth quarter of 2018, however, considerable additional organizational activities and time have been needed for preparing the annual financial statements of the euromicron Group since the beginning of 2019. In view of that, euromicron AG will not present the consolidated financial statements for fiscal 2018 until April 11, 2019, and so not within the period of time specified by the Code. The company will again comply with the Code's recommendation in Section 7.1.2 Sentence 4 DCGK for future consolidated financial statements and group management reports.

Frankfurt/Main, March 28, 2019

The Executive Board The Supervisory Board,

Disclosures on corporate governance practices
The company's Code of Conduct contains corporate governance practices that go further than the statutory requirements. It can be viewed on the company's homepage. The Code of Conduct contains in particular guidelines on business dealings with customers and suppliers, conduct toward competitors, third parties and employees, use of information, avoiding conflicts of interest, and health, safety and environment issues.
www.euromicron.de/en/company/code-of-conduct

– Description of the workings of the Executive Board and Supervisory Board

The persons making up the Executive Board and Supervisory Board are presented in the section **"Supervisory Board and Executive Board"** P.157. A general description of the tasks and workings of the Executive Board and Supervisory Board can be found in the section "Composition and workings of the Executive Board and Supervisory Board" in the **Corporate Governance Report** P.022. The latter is also published in the Internet on our homepage in the section "Corporate Governance".

– Targets

The current ratio of women on the company's Supervisory Board is two-thirds. Pursuant to its resolution dated December 14, 2016, the Supervisory Board defined the target of maintaining the ratio of women at one-third; the current ratio of women is higher at two-thirds, so this target was surpassed within the deadline for implementation by December 31, 2018. Pursuant to its resolution dated March 12, 2019, the Supervisory Board defined the target of one-third for the ratio of women on the Supervisory Board by December 31, 2023.

The Executive Board comprised two members (one female and one male) in 2018. The ratio of women was thus 50%. Pursuant to its resolution dated December 14, 2016, the Supervisory Board defined the target of maintaining the ratio of women on the Executive Board at 50%, so that target was achieved within the deadline for implementation by December 31, 2018. Pursuant to the resolution adopted by the Supervisory Board on March 12, 2019, the Supervisory Board defined the target for the ratio of women on the Executive Board in accordance with Section 111 (5) of the German Stock Corporation Law (AktG) as being one-third and set a deadline for implementation by December 31, 2023.

In filling management posts, the Executive Board ensures adequate representation of women, as well as a wide range of skill structures (diversity). At present there is one management tier below the Executive Board, consisting of four department heads who hold general commercial power of attorney. The ratio of women in the management tier below the Executive Board remains 0%. That ratio complies with the resolution adopted by the Executive Board on December 29, 2017, to maintain the 0% ratio of women at the time up to December 31, 2018.

In view of the current contracts of service, the Executive Board believes there is little legal or actual leeway at present to improve the ratio of women in the management tier below the Executive Board apart from creating further departments. Under its resolution dated January 22, 2019, the Executive Board therefore defined the ratio of women in the management tier below the Executive Board in accordance with Section 76 (4) of the German Stock Corporation Law (AktG) as being 0% in accordance with the current status and set a deadline for implementation by December 31, 2019. However, the Executive Boards still intends – regardless of the ratio of women stipulated by law – to make intensified efforts to develop and acquire women with suitable professional and personal qualifications for management posts.

The defined targets for the ratio of women on the Supervisory Board, on the Executive Board and in the management tier below the Executive Board are thus met at present.

– Diversity concept

The Supervisory Board's diversity concept is part of the above-described competence profile. Due to the small number of Executive Board members, the company does not pursue a diversity concept within the meaning of Section 289f (2) No. 6 of the German Commercial Code (HGB) with regard to the Executive Board's composition.

3 Compliance Report

For the Executive Board of euromicron AG, corporate governance based on integrity means morally and legally responsible conduct, in particular toward executives, employees and all business partners. These maxims are actively practiced by the Executive Board, Supervisory Board, management teams of the respective companies and employees and have been incorporated in the company's Code of Conduct. The Code of Conduct reflects that fundamental understanding, is the basis for a consistent understanding of ethical conduct in the Group, and also provides guidelines that represent a framework for our commercial and personal conduct.

The Code of Conduct can be viewed on the company's homepage.

www.euromicron.de/en/company/code-of-conduct

3.1 Focus of our compliance work

On the basis of euromicron's Code of Conduct, there are general guidelines for compliance in practice. The existing compliance structure is regularly reviewed, developed further and adapted to reflect the current status of the individual areas of the company. To enable that, the Executive Board – in coordination with the compliance officer of euromicron AG – selects a special area of focus each year. Apart from changes in the law, changes in requirements from operational business and in the market environment play a part in selection of the area of focus.

The focus of our compliance activities in 2018 was on auditing our business partners. As part of that, particular emphasis was placed on an analysis of risks and the survey was implemented using a Group-wide database. The switch by the euromicron Group's data protection organization to the regulations of the newly enacted European General Data Protection Regulation were accompanied in a separate project in 2018.

3.2 Compliance training

Various training measures ensure that the high standards euromicron AG demands of all executives and employees are implemented and practiced in day-to-day activities. They include e-learning that teaches the relevant fundamentals, as well as in-person courses. The compliance officers identify specific groups of managers and employees to whom to convey the contents of compliance. As a result, the specific requirements of the various divisions can be better addressed and the needs of course participants dealt with suitably.

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3.3 Compliance organization

The Executive Board has established an effective organizational structure to enforce, control and further develop the compliance principles and so ensure that euromicron AG lives up to its mission of complying with the law and company agreements. A core element of that organization is the appointment of a local compliance officer at all the Group's companies. The compliance officers act as primary contact persons for management and employees at the respective companies for all matters relating to the issue of compliance. However, they are also contact persons of the Chief Compliance Officer and responsible for implementing compliance-related guidelines issued by the Executive Board at their respective companies. A further important function is to receive information on compliance violations and to coordinate with the Chief Compliance Officer of euromicron AG in dealing with such violations.

The Chief Compliance Officer reports regularly to the Executive Board on all compliance matters and notifies the Executive Board immediately if there is the suspicion of compliance violations. The Executive Board reports regularly to the Supervisory Board on compliance matters.

Regular meetings of all compliance officers in the euromicron Group ensure that information and experience are shared and that the guidelines on conduct issued by the Executive Board are carried through effectively and filled with life. To enable that, the compliance and IT officers are also in close dialog with the Group's Data Protection Officer.

euromicron AG's compliance organization is established at all divisions and units of the company. This appropriate and effective structure guarantees that Group-wide requirements are communicated to and applied at the individual companies, company-specific requirements are formulated, and all employees have a competent contact person for compliance-related questions and information. The Executive Board has decided, as a supplement to the existing reporting channels, to commission an ombudsman whom employees, as well as business partners, can confidentially contact if they have compliance-related information.

3.4 Further information

To make sure that the contents of compliance are practiced not only by employees and executives, but also with our business partners, they are also implemented in our general standard terms and conditions of trade and other contractual agreements.

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euromicron on the capital market

Investor relations

euromicron AG attaches great importance to regular dialog with its investors and all other relevant capital market players. As a company listed on the Prime Standard at Frankfurt Stock Exchange, we are committed to complying with the very highest transparency requirements and also conduct active investor relations work above and beyond that demanded by law.

In fiscal year 2018, as in the years before, we used various communication channels to nurture dialog with all stakeholders. Apart from the annual accounts press conference for investors, analysts and financial journalists in the spring, the Executive Board fielded questions from small and mid-cap investors at the 2018 German Equity Capital Forum and the Munich Capital Market Conference.

Publication of the figures for the third quarter of 2018 was accompanied by the launch of a telephone conference for analysts on the subject of the financial publications. In addition, the Executive Board holds one-on-one talks during the year. The IR manager will be pleased to engage in direct dialog and can be contacted by phone under +49 69 631583-0 or by e-mail at irpr@euromicron.de.

We provide constant information on the current performance of the euromicron Group by publishing capital market-related releases and financial reports in German and English. Further information above and beyond their content is contained in the IR presentation that has been published since 2018 and can likewise be found on the Investor Relations website.

Anyone interested can find an extensive range of information on corporate governance, the General Meeting and the euromicron Group's services on that site.

www.euromicron.de/en/investor--relations

Shareholders that had to be reported in acc. with Section 33 WpHG (> 3%):

5.002%	**3.47%**	**3.04%**	**3.01%**
Carl Ernst Veit Paas July 2, 2018	Lazard Frères Gestion SAS March 8, 2016	Christian Bischoff August 12, 2015	Universal-Investment-GmbH February 22, 2016

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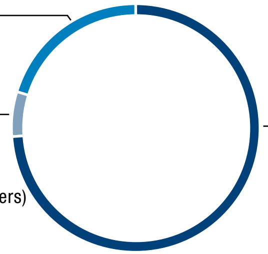
Shareholder structure

The majority of the registered shares in euromicron AG – 74% – are held by private investors, Beneficial owners, i.e. investors and legal persons who hold the shares themselves, hold around 6% of the shares. The proportion of shares held by investors whose identity is not known by us (nominees; legal persons, shares held by third parties) is therefore approximately 20%.

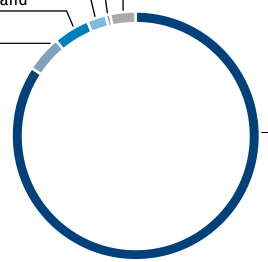
The lion's share of euromicron's shares – 84% – is held by investors from Germany, whereas around 16% are held by investors from Belgium, Switzerland, Austria, Ireland and other countries. Around 95% of the shares in euromicron AG are free float.

Shareholder structure by type of investor



Status: December 31, 2018 | Shares: 7,176,398

Shareholder structure by country



Status: December 31, 2018 | Shares: 7,176,398

Overview of the shares

The shares on the market

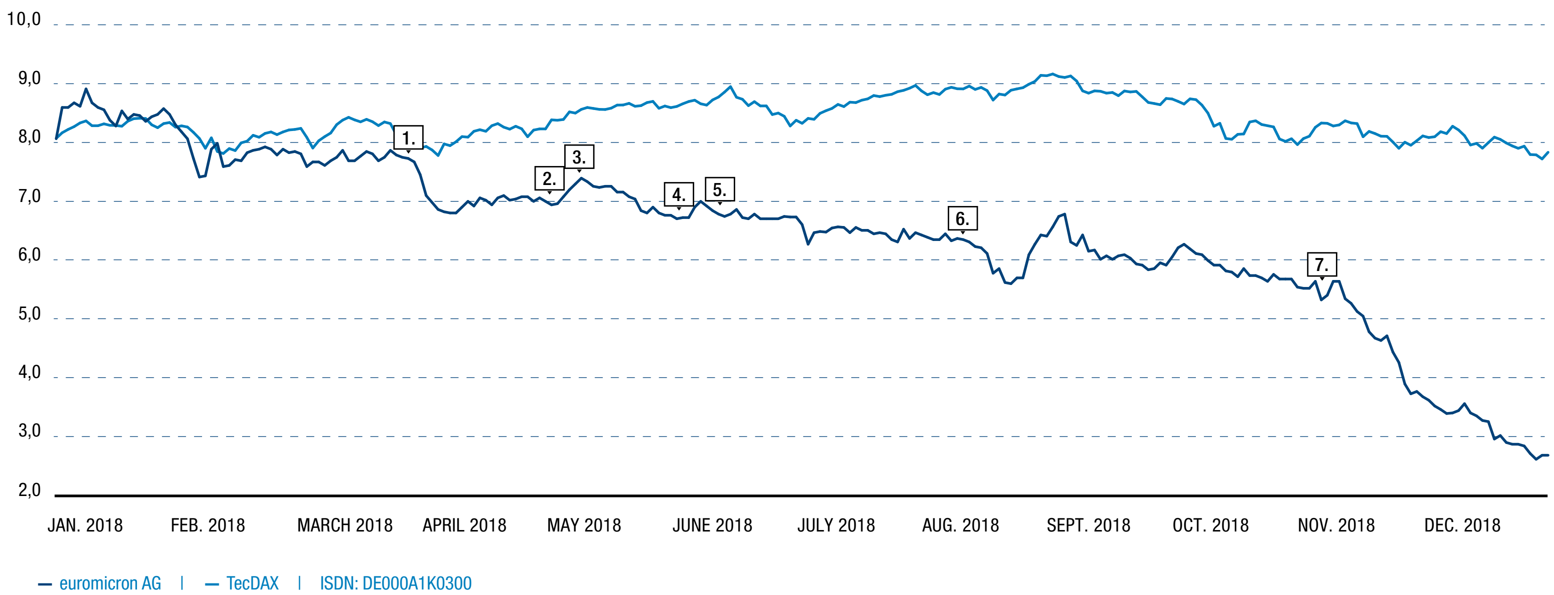
001

	2018	2017
Number of shares issued at the balance sheet date	7,176,398	7,176,398
– of which treasury shares	–	–
Capital stock (€)	18,347,544.88	18,347,544.88
Highest price * (€)	8.94	8.94
Lowest price * (€)	2.55	5.77
Closing price at the end of the year * (€)	2.62	8.09
Performance in absolute terms	– 67.6 %	+ 38.3 %
Performance of the TecDAX	– 3.1 %	+ 39.6 %
Market capitalization at the end of the year (in € million)	18.80	58.06
Undiluted earnings per share (€)	– 1.60	– 0.53
Volume of shares traded (in millions) **	2.19	2.92
Ø volume of shares traded per day (in thousands)	8.72	11.57

* Xetra, closing price.
** Xetra and Frankfurt Stock Exchange.

Performance of euromicron's share

Share performance in €



1. **March 28, 2018**
Publication of the 2017 annual financial statements and outlook for 2018

2. **May 2, 2018**
Change on the Executive Board: Jörn Trierweiler assumes office

3. **May 9, 2018**
Figures for Q1 2018: stable start to fiscal 2018

4. **June 5, 2018**
New members of the Supervisory Board: Dr. Martina H. Sanfleber and Klaus Peter Frohmüller

5. **June 13, 2018**
General Meeting

6. **August 9, 2018**
Figures for the 1st half of 2018: Proceeding according to plan after 6 months

7. **November 5, 2018**
Ad-hoc announcement: Revision of the outlook for 2018

Assessments of analysts

The euromicron share was covered by five financial analysts in fiscal year 2018. At the time the most recent research reports were available, analysts had issued two "hold" and three "buy" recommendations. There are no recommendations to sell the shares.

Independent analyses support transparency by euromicron AG; we therefore make all studies by analysts available on our Investor Relations website.

www.euromicron.de/en/investor-relations/studies

Analysts' recommendation on euromicron's share 002

Institute	Analyst	Date	Recommendation	Upside target
				in €
Bankhaus Lampe KG	Wolfgang Specht	January 17, 2019	Hold	3.50
GBC AG	Marcel Goldmann	January 8, 2019	Buy	6.90
Independent Research GmbH	Markus Friebel	November 14, 2018	Hold	5.30
Pareto Securities AS (formerly equinet Bank AG)	Winfried Becker	March 28, 2019	Buy	8.90
Solventis Research	Klaus Schlote	April 3, 2019	Buy	7.16

Status: April 3, 2019

Annual General Meeting

euromicron AG held its 2018 Annual General Meeting in the Deutsche Nationalbibliothek (German National Library), Frankfurt/Main, on June 13, 2018. The Executive Board and Supervisory Board welcomed around 150 shareholders and guests. A total of 27% of the capital stock with voting rights was represented (previous year: 25%, including absentee ballots).

The Annual General Meeting was opened by Ms. Evelyne Freitag, Chairwoman of the Supervisory Board, as part of which the two new Supervisory Board members Dr. Martina H. Sanfleber and Mr. Klaus Peter Frohmüller introduced themselves in person. They were appointed to Supervisory Board of euromicron AG by Frankfurt/Main District Court in June 2018. The term of office of these two members expires at the end of the 2019 Annual General Meeting. In addition, Mr. Jörn Trierweiler was appointed to the Executive Board by the Supervisory Board effective April 30, 2018; he also introduced himself to all owners.

In the course of the Annual General Meeting, the Executive Board reported in detail on the company's operating performance in fiscal 2017 and the progress that had been made as part of the euromicron Group's transformation. In addition, the Executive Board provided an overview of the first quarter of 2018 and an outlook for the company's anticipated performance in the further course of the year.

All the items on the agenda were approved by a large majority: The Executive Board and Supervisory Board were granted discharge for the past fiscal year 2017, as was the former Supervisory Board for the fiscal year 2016. The Annual General Meeting elected PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the auditor for the company and the Group for fiscal year 2018.

Detailed results for the votes and further documents on the Annual General Meeting can be obtained at

www.euromicron.de/en/investor-relations/general-meeting

Appropriation of net income

The annual financial statements of euromicron AG at December 31, 2018, in accordance with the German Commercial Code (HGB) disclose net accumulated losses of € –69,988,648.22 (previous year: loss of € –43,251,861.92). The net accumulated losses are carried forward to a new account.

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Board Members of the Company

EXECUTIVE BOARD

Bettina Meyer
Spokeswoman of the Executive Board

Finance, Legal Affairs, Human Resources, Accounting/Controlling, Investor Relations and Purchasing

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- None

Dr. Frank Schmitt
Member of the Executive Board

Chief Technical Officer: Operations, Technology, Product Development and IT

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- None

Jörn Trierweiler
Member of the Executive Board

Business Transformation

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- ATRUS Cement Holding AG (in liquidation), Ohlsdorf, Austria (until May 26, 2018)
- Libyan Cement Manufacturing Company, Tripoli, Libya, as part of a professional restructuring solution

SUPERVISORY BOARD

Evelyne Freitag
Chairwoman of the Supervisory Board of euromicron AG
Graduate in Business Management

Chief Financial Officer Germany/Switzerland/Austria of Sanofi-Aventis Deutschland GmbH, Frankfurt/Main

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- Chairwoman of the Supervisory Board of the Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG, Frankfurt/Main
- Foreign trade advisor to France in Germany

Klaus Peter Frohmüller
Deputy Chairman of the Supervisory Board of euromicron AG
Graduate in Economics

Advisor to brain-in-transAction GmbH, Hanau

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- Ziemann Sicherheit GmbH, Schallstadt
- 67rockwell Consulting GmbH, Hamburg
- PerformanceDNA GmbH, Neu-Isenburg

Dr. Martina H. Sanfleber
Member of the Supervisory Board of euromicron AG
Doctor of Business Economics

Full-time member of the Supervisory Board of the RWE/Innogy Group, Meerbusch

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- Essent N.V., ’s-Hertogenbosch, Netherlands
- Stadtwerke Duisburg AG, Duisburg
- Goodyear Dunlop Tires Germany GmbH, Hanau
- further mandates in facultative supervisory boards of municipal utilities

GROUP MANAGEMENT REPORT

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1 Fundamentals of the Group

1.1 Business model of the Group

Profile

The euromicron Group is organized into the three segments of “Smart Buildings”, “Critical Infrastructures” and “Distribution”.

From design and implementation, operation, to intelligent services – euromicron provides its customers with tailor-made digitalization solutions from a single source. To achieve that, the companies in the euromicron Group combine the technically and economically most expedient components from the fields of devices and sensors, infrastructure, platforms, applications and services.

As a result, euromicron enables its customers from small and medium-sized enterprises (SMEs) and the public sector, as well as large companies, to network business and production processes and successfully implement digitized processes at their organization.

The Group’s structure and locations

euromicron AG, Frankfurt/Main, is a strategic management holding that discharges cross-Group tasks. They include not only strategic controlling, but also assumption of cross-cutting functions such as financing, Group controlling and accounting, taxes, legal affairs, human resources, purchasing, IT, corporate marketing, investor relations corporate development and innovation management.

Alongside euromicron AG as the ultimate parent company, the euromicron Group’s operating business is conducted by the following Group companies:

The companies in the euromicron Group

euromicron Deutschland GmbH
euromicron telent
sachsenkabel
euromicron austria GmbH
SIM
ELABO
KORAMIS
EUROMICRON GROUP
ssm euromicron
SIM Secure Information Management (Asia Pacific) Pte. Ltd.
MICROSENS euromicron group
Netzikon
QUBIX
ATECS AG
ProCom
EUROMICRON GmbH
SIM SKYLINE

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The regional focus of the euromicron Group's business operations is on German-speaking countries. euromicron's companies are represented at a total of 28 locations distributed throughout Germany. That enables ideal proximity to and intensive care and support for euromicron's customers.

The companies in the euromicron Group are represented in other European countries with locations in Italy, Austria, France, Poland and Switzerland. Group companies are also based in some non-European countries in the shape of project offices so as to cater for country-specific market requirements there. Examples of that are Islamabad (Pakistan), Singapore or Beijing (China).

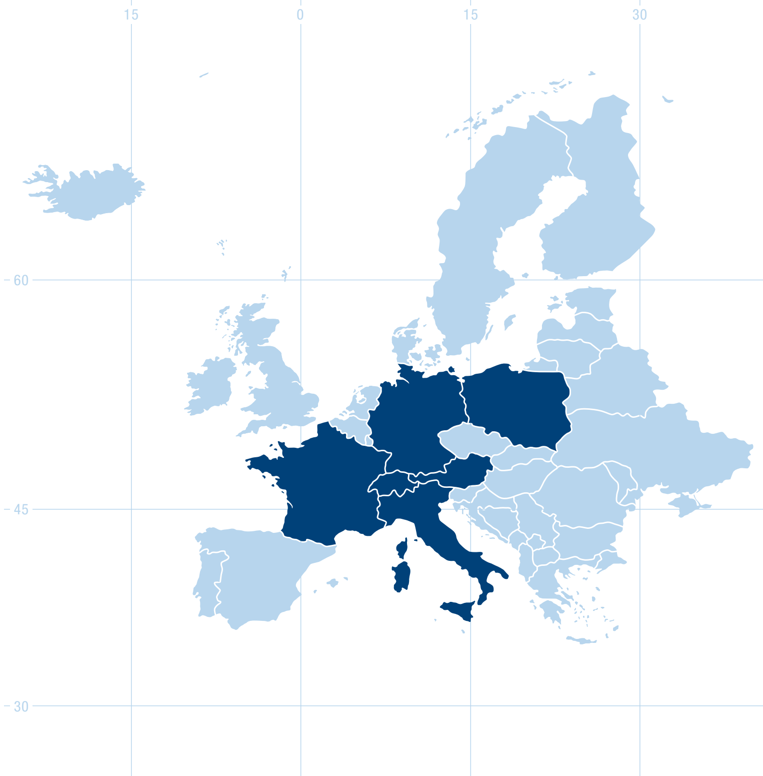
We tap emerging markets with their great demand, such as the United Arab Emirates, Brazil or the former CIS countries, through project and export business and intensified international sales activities, with these operations usually being controlled from Germany. As part of its internationalization strategy, the euromicron Group permanently examines strategic options for tapping interesting foreign markets through acquisitions as a springboard for additional business activities.

Sales by region

in € m.

The chart below shows the regional footprint of the euromicron Group's companies:

Main euromicron locations



GERMANY
28
Augsburg
Backnang
Bamberg
Berlin
Burkhardtsdorf
Crailsheim
Erfurt
Essen
Frankfurt/M.
Gornsdorf
Hamburg
Hamm
Hanover/Langenhagen
Karlsruhe
Kirchheim
Langenfeld
Leipzig/Zwenkau
Munich
Neu-Isenburg
Neustadt a. d. W
Radeberg
Reutlingen
Saarbrücken
Sallgast
Schkopau
Sinn-Fleisbach
Stuttgart
Teltow

EUROPE
6
Padua **IT**
Paris **FR**
Seekirchen **AT**
Vienna **AT**
Wrocław **PL**
Zug **CH**

ASIA
3
Islamabad **PK**
Beijing **CN**
Singapore **SG**

Segments

Smart Buildings	Critical Infrastructures	Distribution

In line with its strategy, the Group's internal and external reporting structure is geared toward operating business on a market-oriented basis. The euromicron Group's segments in accordance with its internal reporting structure are as follows:

Smart Buildings

All the activities of the euromicron Group in the markets of "Digital Buildings" and "Smart Industry" are pooled in the "Smart Buildings" segment. Smart, digital buildings are an integral part of the Internet of Things. The term "digital building" describes the automation and central operation of the technical equipment of office, commercial and industrial properties, such as train stations, airports or shopping malls. The interplay between all the disciplines creates an intelligent whole that enhances efficiency, security and convenience.

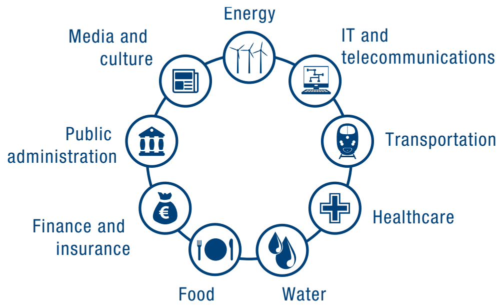
Services relating to building or process automation, alerting, fire prevention, video surveillance, access control or support services as part of efficient energy and building management are integrated in unified, highly available overall systems. Examples of that are intelligent access control or optimizing energy efficiency in running buildings so as to slash operating costs.

For "Digital Buildings", euromicron delivers cross-industry, all-round solutions for innovative building, network and security technology, as well as complementary digital and other services. Using suitable software in the smart building means manual processes can be eliminated and improved, resources used more efficiently and so costs cut. Application examples of that are intelligent, energy-efficient room and lighting systems ("Smart Office" and "Smart Lighting"). This area also includes equipping data centers with high-performance cabling systems.

The focus in "Smart Industry" is on digitizing and networking development, production and service processes at medium-sized industrial companies. The euromicron Group develops holistic Smart Industry approaches for and with its customers and implements them in a forward-looking way that protects investments. Intelligent data management and a highly available, fault-tolerant network infrastructure are crucial success factors for customers. In networking and automating digital business processes, the euromicron Group also sets store by comprehensive risk analysis. It offers cybersecurity solutions integrated with "Smart Industry" so that production can be networked securely and with a high level of performance.

Critical Infrastructures

The "Critical Infrastructures" segment caters for operators of such infrastructures with highly available and secure communications solutions. Critical infrastructures (KRITIS) are vital business infrastructures whose failure is highly problematic for a company and also for large sections of the public. That may be the digital mobile radio system at an airport or the communications network of Deutsche Bahn or a power utility, for example. Critical infrastructures include:



Operators of critical infrastructures are also leveraging the technological possibilities now offered by digitalization and networking, as well as the opportunities the Internet of Things and artificial intelligence open up, to optimize their processes and increase productivity. However, special availability, integrity and confidentiality requirements are above all demanded of these networks. They relate to security standards and the ability to repel attacks, as well as system solutions that are sufficiently fault-tolerant. Integrated, efficient IT security concepts will therefore be vital in the future. The euromicron Group has

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intimate knowledge of the requirements, guidelines and standards to meet those demands and offers a legally secure overall package for operators of critical infrastructures. With its broad customer base in the segments telecommunications, energy and transportation, euromicron boasts extensive practical experience as a specialist for planning, creating and operating secure networks and systems. Moreover, customers in the “Critical Infrastructures” segment obtain specialized expertise for holistic solutions relating to cybersecurity, automation, process control systems and power system control technology. Cyberattacks pose an existential risk, for example, to companies from the energy sector or public authorities – and so to public welfare. Integrated, efficient IT security concepts will therefore be vital in the future.

Customers of euromicron have a one-stop shop for tailored, secure all-round solutions for process and enterprise networks. Potential application areas are the production, energy, chemicals and transportation industries. Last but not least, the technology manufacturing companies in this segment round out the product portfolio in this target market with their professional video, audio and special technology solutions for sensitive security restricted areas.

– Distribution

The “Distribution” segment groups consulting and supply of vendor-independent products relating to active and passive network components in the fiber-optic and copper arena.

Products and solutions

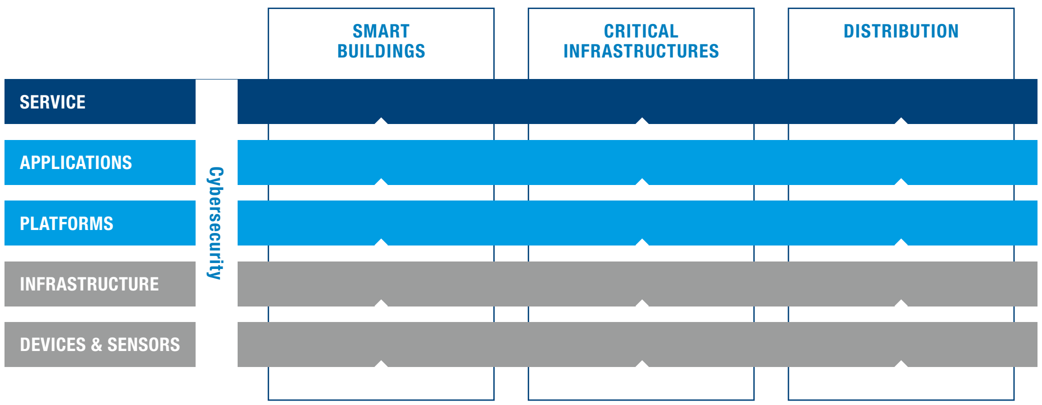
As a medium-sized specialist, euromicron accompanies its customers in digitizing and networking their business processes, with tailored solutions “Made in Germany”. Underpinned by expertise and technologies in the field of IT, network and security infrastructures, the euromicron Group’s solutions dovetail seamlessly into the innovative concepts for the Internet of Things. The euromicron Group offers customized, vertical IoT solution concepts for its markets.

To achieve that, euromicron combines the technically and economically most expedient solutions from the fields of devices and sensors, infrastructure, platforms, applications and services. End-to-end cybersecurity concepts round out the portfolio.

The Group’s technology companies develop and produce active and passive optical network components, high-quality fiber-optic cabling systems, public address systems, testing and inspection equipment, networked workplace systems and highly professional safety and security technology for special applications. Reliable delivery, professional training in how to use the products and comprehensive services round out the range of services.

As a system integrator, euromicron takes care of management and handling of the entire project – from planning, consulting, selecting and installing the system technology to service, maintenance and network management. In doing so, it combines innovative internal and external technologies to suit customers’ requirements in order to create best-in-class solutions.

Business model of the euromicron Group



In view of the specific customer requirements, euromicron nurtures strategic partnerships with external technology suppliers. Thanks to these established partnerships with vendors from the fields of network, transmission and security technology, the companies in the euromicron Group are always able to deliver an ideal solution for the customer's specific needs. For example, the range of cybersecurity services begins with an end-to-end analysis of weak points throughout the IT infrastructure, extending as far as continuous security monitoring in real time. Apart from analysis, the service portfolio also includes a review of the individual security strategy. That slashes the risk of external and internal system manipulation and significantly increases the IT infrastructure's security. At the same time, the companies have the necessary certification to ensure top quality when it comes to planning, installing and maintaining the products used. Customer proximity by means of on-site service is crucial in the consulting-intensive solution business and euromicron achieves that with its comprehensive network of branch offices. Services are provided directly on-site or through the central Service and Network Operation Center (NOC).

Markets

The possibilities for digitization are innumerable and enable holistic technical solutions in all areas of life and business. Solutions, products and services relating to the Internet of Things and Smart City will gain strongly in importance in the coming years. The growing level of digitalization increasingly poses new challenges for cities, municipalities and enterprises – and the most efficient way of solving them is with digital business models.

The euromicron Group pools the know-how of different small and medium-sized enterprises for these topics, with a focus on "Digital Buildings", "Smart Industry" and "Critical Infrastructures". In each of these markets, euromicron offers its customers tailored IoT solutions – from the infrastructure to services – with a combination of technology, system integration and smart services. There is significant market potential for the euromicron Group with its more than 20 years of experience in view of the growing digitization and networking of infrastructures. euromicron therefore constantly gears its business model toward sustainably leveraging the existing potentials.

1.2 Objectives and strategy

Building on the company's existing business, the Executive Board of euromicron AG has strategically aligned the euromicron Group toward the growth market of the Internet of Things (IoT). The overriding objective is to position the company with customized, secure digitalization solutions in the IoT market in order to leverage that market's growth potential sustainably. Against that backdrop, euromicron is increasingly evolving away from a technical component manufacturer into an end-to-end solution provider for digital software-based services in selected IoT markets.

Technological developments, such as the Internet of Things, Smart Industry, smart services or cloud services, mean enterprises face the challenge of establishing digitized processes at their organization. Increasing networking and digitization of all conceivable information are impacting how existing and potential customers work and live to a greater and greater extent, as numerous examples from practice already demonstrate: Meeting rooms, along with the heating, lighting and WLAN, prepare themselves for the next meeting and its specific needs. Track points send status information to signal boxes. Industrial robots preventively report an impending failure of testing equipment or databases. Intelligent analysis and management of data using artificial intelligence (AI) will help networking of things achieve the breakthrough. Useful recommendations for users are derived from analysis of the data that is gathered.

Data is the resource for digital value creation and our economy's future engine. It is the basis for new business models and services. However, the Internet of Things cannot work without fail-safe infrastructures and highly available networks. The euromicron Group has decades of experience in the networking arena. In the meantime, the Group is a specialist for enabling digitalization and unites know-how in secure infrastructures, intelligent processes and smart applications under one roof.

In the past years, customers mainly demanded individual communications and IT infrastructures or individual solutions for building technology, but now want complex, holistic solutions as a result of increasing digitization of processes – from sensors and infrastructure to software platforms, applications and services. This is where euromicron steps up to the plate, by developing not only the hardware required for the customer's network infrastructure, but also end-to-end digital solutions for expanding and optimizing traditional business models. Planning, implementing and operating digital infrastructures is the focus of euromicron's business activity and so the company is positioned in a growth market.

Digitalization in the SME sector and the related innovative transformation of business models at the euromicron Group offer great opportunities for development moving ahead. That is demonstrated by the Group's new projects, which leverage potential for customers with predictive maintenance models or smart security concepts and which can be developed into scalable solutions.

Implementing future-proof structures is one of the key factors in enabling our company to leverage our growth potential fully and profitably. euromicron works constantly to gear its corporate strategy to current market developments, innovations and its sustained strengths.

By sticking unswervingly to our IoT strategy, intermeshing collaboration between the technology and system integration companies and pooling know-how, euromicron will be able to offer an even broader range of smart services for all strategic target markets in the IoT market. In this way, the Group differentiates itself clearly and lastingly from the competition.

euromicron's extensive customer base, broad solution portfolio and innovativeness in the areas of technology and system integration are the foundation for sustainable growth. In the years to come, euromicron aims to generate profitable growth through rigorous continuation of the IoT strategy, as part of which it intends to significantly grow the share that smart services contribute to system integration sales.

As part of its focus on strategic divisions, the Group also continuously examines divestments and acquisitions and seizes the chance to make them if good opportunities arise. Its planning is based on the Group's current structure and so may need to be adjusted if divestments or acquisitions are made.

1.3 Control system

Corporate controlling

euromicron AG with its Executive Board members and implemented cross-cutting functions sees itself as a strategic management holding. Corporate controlling is geared toward liquidity and profitable growth. Securing competitiveness is based on innovativeness, a focus on solutions and proximity to our customers. Our focus is on digitalization: Apart from our physical business, we also offer digital business models with a high share of software and services. Future markets in the growth market of the Internet of Things are tapped by means of a structured, Group-wide innovation process. The key success factor as part of that is our excellent employees.

Internal key control indicators

Our main financial control factors comprise key indicators for our business development, profitability, capital efficiency and liquidity controlling. At present, the operating EBITDA, the operating EBITDA margin, sales and the working capital ratio are the main key indicators used to control the Group.

Operating EBITDA and operating EBITDA margin

The factor for measuring operating results of the business units and Group and so the key earnings ratio for segment reporting is "earnings before interest, taxes, depreciation and amortization" (EBITDA). To permit better comparison over time, we look at EBITDA adjusted for special costs ("operating EBITDA"). Another focus of the analysis is on return on earnings. The operating EBITDA margin (operating EBITDA relative to sales) is used as the key figure for return on earnings.

Sales

Profitable organic sales growth is a key element of our strategy to increase the company's value. The development of sales is used as the factor for measuring that.

Working capital ratio

In addition, the working capital ratio (working capital deployed relative to sales) is used to control the Group so that the Group's tied-up capital and liquidity development can be systematically monitored and continuously optimized. Working capital is defined as the total of inventories, trade accounts receivable and contract assets (previous year: the gross amount due from customers for contract work) minus trade accounts payable and contract liabilities (previous year: the gross amount due to customers for contract work).

All the euromicron Group's activities are controlled and monitored on a segment-oriented basis. Important key figures that are monitored regularly are shown in the table below: Table 003

Key figures and control factors 003

	2018	2017
	€ m.	€ m.
Sales	**318.0**	**332.9**
Operating earnings before interest, taxes, depreciation and amortization (operating EBITDA)*	6.5	13.5
Operating EBITDA margin*	2.0 %	4.1 %
Special costs (with an impact on EBITDA)	– 4.6	– 4.0
Earnings before interest, taxes, depreciation and amortization (EBITDA)	1.9	9.5
EBITDA margin	0.6 %	2.9 %
Working capital	28.7	43.0
Working capital ratio	**9.0 %**	**12.9 %**

* Adjusted for special costs (previous year: special effects of the reorganization).

The development in these key figures is explained in sections 2.2 "Course of business" and 2.3 "Net assets, financial position and results of operations".

Future control system

Introduction of the standard IFRS 16 – "Leases" will have a considerable impact on the presentation of future financial statements and so on the key control indicators derived from that. Operating EBITDA is a control factor at euromicron that is affected by that. In the future, the leasing costs (finance rate) that have been recognized to date as an expense for operating leases in accordance with IAS 17 will no longer be carried in the "Other operating expenses". Instead, the right of use approach will mean that the lease expenses are split into amortization of the recognized right of use and an interest expense.

euromicron has decided to continue using the existing EBITDA as a control factor in the future, since there has been no change to the system of cash-oriented corporate controlling.

In future, we will therefore reconcile the EBITDA reported in the financial statements with EBITDA "adjusted" for leasing effects and present that accordingly.

There will also be no adjustment of EBITDA to reflect special costs as of fiscal year 2019.

The other key control indicators will be retained without any changes.

1.4 Research and development

Objectives

Research and development are a key pillar in our infrastructure-related IoT solutions and play a major part in helping us stand out from the competition. Our main goal is – from sensors and infrastructure to applications – to develop solutions that enable our customers to make their work processes more efficient and effective. In addition, our innovations should have unique technical selling points in order to safeguard our position in our physical business and profitable niche markets, as well as let us tap new markets of the future for digital services.

Significant projects and results

The focus of development activities at MICROSENS GmbH & Co. KG is on further development of its own software and hardware components and on development of new products and solutions. The lion's share of R&D expenditure in 2018 went toward further development of the "Smart Building Solutions" concept, with which MICROSENS is positioning itself in the field of digital building technology and automation, a market with a highly promising future.

Digitalization of buildings is based on as secure networking of devices as possible and use of the data obtained from that. With its Smart Building Solutions concept, MICROSENS has developed an IP-based solution that enables networking at the room level. In this decentralized approach, every room has an intelligent control instance, thus ensuring the greatest-possible scalability. The system is suitable for an individual conference room, but also for large complexes such as office buildings, hotels or hospitals. The focus here is on user authentication, with the result that this concept meets the very highest security standards.

Important components of the concept are the new Central Smart Lighting Controller and the Smart I/O Controller, which were also presented at Light & Building 2018, the world's leading trade show in the industry. The Central Smart Lighting Controller is used as an intelligent means of powering up to 24 LED luminaires that can be controlled individually. With standardized twisted-pair cables, up to 50 W are available to each luminaire. MICROSENS' building automation application "Smart Director" is installed on the Central Smart Lighting Controller; it manages and controls the luminaires or luminaire groups in accordance with defined lighting scenarios. The application also integrates heating and shading in automation.

The Smart I/O Controller has a module that is powered by PoE and with which every device can be directly integrated at the sensor/actuator level in the IP infrastructure of modern buildings. Even older devices in the field can be addressed directly in the IP network with state-of-the-art control options. With its software-based programmable logic controller (PLC) "microRTS", MICROSENS integrates the automation level in the network infrastructure. The software installed on the Ethernet switches replaces conventional PLC systems and enables IEC-61131-3-compliant programming with the engineering tool "microSys". "microRTS" offers building planners maximum flexibility and planning security. Integration of the automation level in the network means the traditional components of the trade disciplines in building planning are re-apportioned and minimized.

In the field of network components, MICROSENS has rounded out its range of ruggedized, highly available switches with the 10G Profi Line Rack Switch. The fanless switch is used where there are greater connectivity needs, as well as the very highest reliability and bandwidth requirements, and mechanical fans cannot be used. The latest development in MICROSENS' industrial switches with its 28 ports is suitable for cabling large units in industrial environments, as well as for in-house use. With its scalable, broadband connection, it delivers maximum performance and availability of the applications.

KORAMIS GmbH provides solutions for automation, process control systems and power system control technology. It boasts many years of expertise in industrial automation, industrial software and industrial security. In order to evaluate and implement suitable technologies, KORAMIS is involved in the research project "fast semantics" (Secure Manufacturing Real Time Semantics), which runs from 2018–2021 and aims to develop an RT logic for ASIC or FPGA for real-time semantic integration of sensors and actuators by means of OPC UA.

Up to the end of 2018, KORAMIS participated in the project RiskViz ("Risk exposure in industrial IT security in Germany"), which was funded as part of the "National Strategy for the Protection of Critical Infrastructures", and is helping to develop new methods and technological approaches to identify risks in the field of industrial IT security as part of that. The findings from the project are already being incorporated by KORAMIS in consulting services and action concepts. The joint research project "AnoKo" ("Anomaly detection in the communication of industrial plants 4.0 for the defense against cyberattacks") has likewise been completed. The aim of "AnoKo" was to enable timely identification of unauthorized access to, interference with and manipulation of production systems and their infrastructure. In cooperation with ZeMa (Center for Mechatronics and Automation Technology) in Saarbrücken, KORAMIS has developed a technological solution concept as a test bed that can now be used in customer projects.

Malware in industrial infrastructures and system environments represents one of the greatest potential threats. In industry, operators cannot usually ensure end-to-end protection by anti-virus software on their production systems or in their infrastructures. To overcome that challenge, KORAMIS developed the data lock-keeper concept “InDEx”, which was developed further in 2018 with a managed service solution approach and additional features. The digital data lock-keeper InDEx scans mobile data carriers for malware and cleans them if they are infected. That is done before the data carriers are connected to a network and the malware can enter the target infrastructures. A service package can be optionally booked, comprising maintenance, monitoring, remote maintenance, patch management, signature updates and an on-site replacement service, and rounds off the offering.

The activities of telent GmbH – a euromicron Group company – focus on the development and engineering of IoT solutions that make smart city concepts and energy infrastructures safer, more secure and more efficient. Such solutions let users digitize their business processes and operate them at low cost: Monitoring of secondary substations in power grids ensures, for example, that they deliver the prescribed high voltage quality by IoT sensors in the station sending signals to a central control station via the LoRaWAN™ wireless network. This information is continuously analyzed and visualized by means of the evalorIQ™ software platform telent has developed in-house.

Another example is telent’s smart waste solution: Filling level sensors in public trash cans enable ideal route planning for emptying them. Cities and municipalities can thus increase their efficiency as part of waste disposal management by up to 45% and cut fuel consumption by up to 50%. In addition, IoT tracking solutions to pinpoint vehicles and for asset management have been developed.

The Netzikon LoRaWAN™ has been expanded continuously. Customers expect highly available infrastructures and reliable IoT services. Netzikon’s core functionalities have been expanded and installed in a carrier-grade data center. As a result, euromicron is able to offer its customers highly professional IoT services. LPWANs, such as Netzikon’s network, are the basis for transporting IoT data in an energy-efficient way.

The network specialist Cisco Systems has confirmed euromicron as a Gold Partner for the third year in succession. telent’s Technology Team plays a key role in that as an IP system integrator. To achieve this certification, telent had to fulfill strict standards in the areas of network expertise and support. In the field of cybersecurity, telent and KORAMIS are committed to strategic partnerships, such as with SecurityMatters. The SilentDefense™ software is a passive monitoring solution that enables comprehensive inventorization of all system components.

LWL-Sachsenkabel GmbH has been synonymous with innovative fiber-optic cabling systems for more than 25 years. Sachsenkabel also focused its development activities in 2018 on hardware and software projects, with the goal of creating digital fiber-optic solutions for a connected future. Together with its sister company EUROMICRON Werkzeuge GmbH, it has developed the second generation of the low-attenuation high-density connector URM and made it ready for the market. The URM NG connector, which has been specifically designed for data centers, impresses with its ease of handling and smaller footprint and is suitable for cutting-edge applications with 40, 100 and 400 GbE.

To enable further business areas to be tapped strategically, new production technologies have been created for fiber optics that are also used outside telecommunications in sensor systems,optical measurement technology and fiber-based laser technology. Pinpointed R&D measures for FTTH, a market with a highly promising future, resulted in an innovative product solution and method that is currently being patented. Sachsenkabel creates a competitive edge with its digital solutions and the smart service platform “Sachsenkabel pulse” plays a crucial role in that. Thanks to the interfaces that were implemented in 2018, customers benefit directly from the advantages of smart services in using their ERP or documentation systems.

Sachsenkabel helps its customers implement an end-to-end digitalization strategy: “Sachsenkabel pulse” creates the foundation for sustained optimization of project planning – from procurement to quality assurance. With these new approaches, Sachsenkabel is geared more strongly to the digital needs of its customers.

EUROMICRON Werkzeuge GmbH presented a new generation of polishing machines for the fiber-optic industry in 2018. The APC8010 is designed for mass production of up to 36 ferrules per polishing operation. Apart from the new generation's enhanced user friendliness with a 5.7" touch display, great attention was paid to ensuring stable and efficient process steps in production so as to address growing requirements in the fiber-optic industry.

ELABO GmbH, a euromicron Group company, specializes in the customized design of workplace, assembly and testing systems and has established itself as a competent partner for SME-driven Smart Industry solutions. Once again in 2018, ELABO developed forward-looking solutions and so is strengthening its position as a leading Smart Industry provider.

In the past year, ELABO premiered its Field Tuition Suitcase for Knowledge Sharing 4.0, which is aimed at two application areas: First, it give trainees in industrial metal and electrical engineering occupations and mechatronics engineers a better understanding of what Smart Industry is all about. It also supports change processes as part of the digitalization of divisions at small and medium-sized enterprises. The combination of software and concrete application cases makes it easier to learn about Smart Industry, prejudices and fears are dispelled, and trainees are guided step by step toward the digital working world. ELABO picked up the innovation award “100 locations for Industry 4.0 in Baden-Württemberg” for the second time thanks to this solution. In this competition, the “Industry 4.0 Baden-Württemberg Alliance” seeks innovative concepts from business that succeed in intelligent networking of production and value added processes. Their degree of innovation and practical relevance for Smart Industry are assessed in that.

ELABO also developed the new Smart Module Testing (SMT) series in 2018. The modules can be used in safety, insulation and PE testing in automation technology. All the parameters of the SMT modules can be programmed via an Ethernet interface and integrated in existing Smart Industry solutions by means of appropriate driver modules. External operating controls are largely dispensed with, since the factory software Elution® is used for configuration and controlling.

In the field of product and room planning, ELABO again presented new applications last year. ELABO remains trues to its customer care approach using virtual and augmented reality and supports its customers comprehensively with innovative solutions in the consulting and planning phase. Workplaces and workspaces are now simulated in advance and can be experienced by customers before they are finished.

In the field of aftersales, ELABO developed a solution to ensure more customer-friendly maintenance work: the new Digital Field Service. In the future, an ELABO employee no longer has to be perform maintenance work on site at the customer's premises. The expert from ELABO can guide and instruct the customer's employee by means of remote maintenance from a tablet. That means customers can carry out repairs – even complicated ones – on their own and on the spot. That reduces downtimes considerably and saves a lot of time and money.

R&D ratios

Investments in innovative and competitive new products and solutions are also reflected in the carrying amounts of capitalized development costs and self-created software, which were €10.3 million at December 31, 2018 (previous year: €9.7 million); amortization of capitalized development costs and self-created software was €2.5 million (previous year: €2.3 million). The newly capitalized costs in fiscal 2018 totaled €3.1 million (previous year: €2.9 million).

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2 Economic Report

2.1 General economic and industry-specific conditions

General economic conditions

The global economy lost momentum all in all in 2018, according to the Kiel Institute for the World Economy (IfW). The main reasons for that were uncertainty as a result of growing trade conflicts and tightening of monetary policy in the U.S. The latter resulted in a reversal of global capital flows, which in turn led to a sharp drop in the economic buoyancy of many emerging countries. As regards further economic development, the mood grew much gloomier in the second half of 2018, not least due to the change in capital flows and the weaker level of economic activity in China.

In the U.S., economic growth was again stronger in 2018 as a result of fiscal stimuli, whereas there was a drop in economic buoyancy in Japan and the Euro zone. The increase in production slowed down a little in most emerging countries, while Argentina and Turkey slipped into recession. Global economic growth remained constant at 3.7% compared to 2017 and so was sightly below expectations. The IfW's economists forecast slower GDP growth of of 3.4% for the current year 2019 and an increase of likewise 3.4% for 2020.

Trends in the Euro zone

The extremely strong upturn in 2017 lost momentum noticeably in the first half of 2018. In the third quarter, too, the European economy only grew by 0.2%, in particular due to a decline in output in the automotive industry. The unemployment rate of 8.1%, which has been stagnant recently, indicates a sustained slowdown in growth. In view of the weakening in economic buoyancy, the IfW's economists only expect a slow tightening of interest rate policy in Europe initially and so a base rate of just 0.5% at the end of 2020.

They anticipate further positive growth in the coming years, although production will increasingly run up against capacity limitations and structural problems will impede economic dynamism. Risks are seen not only in a further intensification of trade conflicts, but also in Italy's debt sustainability, the delay in reforms in France and, last but not least, the possibility of a disorderly Brexit. Consequently, growth in the Euro zone is expected to be 1.7% in 2019 and just 1.5% in 2020.

The economic situation in the Federal Republic of Germany

The regional focus of the euromicron Group companies' business operations is on German-speaking countries. According to the Federal Statistical Office, the increase in gross domestic product (GDP) in Germany in 2018 was 1.5% (after price and working-day adjustments) and so well below the previous year's figure of 2.5%. Boosts to growth came mainly from domestic consumption and investments by companies.

Two special factors dampened economic output in Germany in 2018: Production and delivery problems in the automotive industry as part of transition to the new approval standard WLTP and restrictions on inland shipping capacity as a result of low water levels in important rivers.

The IfW expects Germany's GDP to grow by 1.0% in 2019 and by 1.8% in 2020. In the opinion of the IfW's economists, there is a positive impact on the economy now that these special factors no longer apply. At the same time, companies face increasing difficulties in expanding their production capacities at a sufficient pace. That is also reflected in the strained situation on the labor market. Consequently, wages will likewise continue to rise and that, together with reductions in taxes and fiscal charges, will result in a further increase in households' disposal income. As a result, domestic demand will become a key engine of economic growth in the coming years, also in view of the fact that lower international demand is anticipated.

The German ICT market

The ICT market last year outstripped the 1.7% growth forecast by The German Association for Information Technology, Telecommunications and New Media (Bitkom). Revenues rose by 2.0% in 2018, from €162.7 billion to €166.0 billion. Good business for software houses and IT service providers made a particular contribution to that. Most of the new jobs were also in these fields. 36,000 additional jobs were created in 2018 according to calculations by Bitkom.

Digitalization also means companies have to invest in IT security. According to calculations by the market research firm IDC, revenue from IT security hardware, software and services totaled around €4.1 billion in Germany in 2018, a year-over-year increase of 9%. Most of the investments by companies were in digital security services. Around €2.2 billion was spent in this segment in 2018.

Outlook for 2019

Bitkom assumes that revenue and employment in the ICT sector in Germany will continue to increase in 2019. The overall IT, telecommunications and entertainment electronics market is expected to grow by 1.5% to €168.5 billion.

The main growth driver will still be information technology with the segments IT services, software and hardware. It is regarded as the indicator for the level of digitalization of the economy. Bitkom forecasts that revenues for this largest sub-market in the ICT industry will increase by 2.5% to €92.2 billion.

The software segment will grow particularly sharply in 2019, by 6.3% to €26.0 billion. It is also anticipated that the market for IT services will also grow above average by 2.3% to €40.8 billion. This segment also includes project business and IT consulting. However, IT hardware revenue is expected to decline slightly to €25.4 billion (–0.7%).

The market research firm IDC predicts further growth in revenue from IT security in 2019 by 9% to €4.4 billion.

Digitalization continues to ensure constant jobs growth: 40,000 jobs are expected to be created in Germany in 2019, a rise of 3.5% over 2018. However, adequate availability of skilled workers is seen as a limiting factor.

All in all, according to Bitkom, there will be large demand for IT consultants and software applications to enable the development of products, value networks and the corporate culture and to gear them to the digital era.

The European IT Observatory (EITO), a project of Bitkom Research with the market research institutes IDC and GfK, forecasts that global ICT revenue will grow by 3.2% to €3.4 trillion.

2.2 Course of business

General statement on the performance of the euromicron Group in fiscal year 2018

The euromicron Group closed fiscal year 2018 with sales of €318.0 million (previous year: €332.9 million), a decline of € –14.9 million or –4.5%. Consequently, sales in fiscal year 2018 were within the forecast range of €310 million to €330 million that was adjusted in third quarter of 2018 (original forecast in the 2017 Annual Report: €340 million to €360 million).

The decline in consolidated sales is mainly due to the fact that sales at the “Smart Buildings” segment fell by € –18.2 million. That was impacted in particular (to an amount of € –9.2 million) by unplanned non-recurring effects from settlements of claims from old projects and from the streamlining of the project portfolio that was completed by the end of 2018 as part of the realignment of construction-related business. In addition, € –8.0 million of the decline is due to the fact that sales from the

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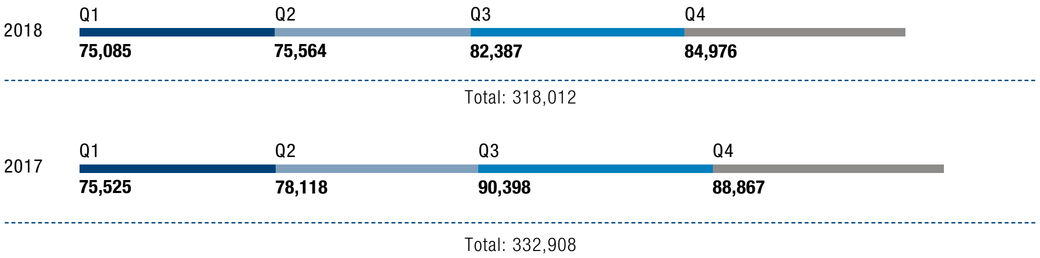
"Network Technology" division came in below expectations. The organizational and sales structures at this division were reorganized in the second half of 2018, a process that was likewise completed by the end of fiscal 2018. There were further reductions in sales (€ –4.0 million) from disposal of the "Telecommunications" division effective April 30, 2017, as a result of which the sales included in the comparative figure for 2017 were no longer generated in fiscal 2018. On the other hand, sales at the "High-voltage current" division in particular were €3.8 million up on the previous year. There were only insignificant effects on sales to a net amount of € –0.8 million from the remaining divisions in this segment.

Sales at the "Critical Infrastructures" segment were €120.8 million and so roughly at the same level as the previous year (€121.0 million); sales trends at the individual divisions of this segment varied, but canceled each other out.

Sales in the "Distribution" segment were €26.0 million, a sharp rise of €2.4 million above the comparative figure for fiscal 2017 (€23.6 million), due in particular to positive trends in the Italian sales market.

Sales by quarter

in € thousand



Apart from that, the segment "Non-strategic Business Areas" posted a drop in sales of € –0.6 million to €0.2 million.

The sales effect from cross-segment consolidation fell by €1.7 million in fiscal 2018 and so had a positive impact on the Group's total sales.

We refer to the presentation of the segments' development for a further explanation of the individual segments' total sales.

The traditionally cyclical nature of business at the euromicron Group, which generates most of its sales in the second half of the year and in particular in the fourth quarter, was also noticeable in fiscal 2018, albeit less substantially than in previous years. 52.6% of annual sales were achieved in the second half of 2018 (previous year: 53.8%). The sales generated in the traditionally weaker first half of the fiscal year accounted for 47.4% of the total figure, compared to 46.2% in the previous year.

The Group's adjusted total operating performance (sales from operations plus inventory changes) was €317.1 million, € –15.2 down on the previous year (€332.3 million). The adjusted material usage ratio (cost of materials from operations relative to adjusted total operating performance) was unchanged from the previous year at 51.9% and resulted in a € –7.5 million reduction in gross operating profit (adjusted total operating performance minus cost of materials from operations).

However, two opposite effects must be differentiated in an analysis of the gross operating profit:

The previously mentioned non-recurring effects from settlements of claims from old projects and streamlining of the project portfolio in the "Smart Buildings" segment reduced total operating performance by € –9.2 million and – taking into account further effects on cost of materials totaling € –0.3 million – resulted in a fall of € –9.5 million in gross operating profit. That meant the Group's material usage ratio increased by 1.5 percentage points.

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However, volume effects from the remaining reduction in total operating performance of € –6.0 million were more than offset by an improvement in the material usage ratio by 1.5 percentage points. That was impacted by the improved margin mix in product and solution business at the technology companies, as well as the further reduction in the material usage ratio of 1.3 percentage points in distribution business in fiscal 2018. As a result, gross operating profit was €2.0 million higher despite the fall in total operating performance.

Operating EBITDA (EBITDA before special costs) was €6.5 million, € –7.0 million below the level of the previous year (€13.5 million). The operating EBITDA margin (relative to sales) was 2.0%. It is therefore within the target range of 2.0% to 4.0% forecast in the third quarter of 2018 (original forecast: 4.0% to 5.0%).

The fact that operating EBITDA was € –7.0 lower is attributable to an amount of € –7.5 million to the gross operating profit effects presented above. That was also impacted by an increase in personnel costs from operations (€ –1.0 million) and a decrease in other operating income of € –0.5 million. On the other hand, other operating expenses fell by €2.0 million year on year. That was mainly due to lower costs for personnel leasing, lower effects from allocations to impairment allowances, and lower foreign currency losses.

Special costs with an impact on EBITDA totaled €4.6 million and reduced the EBITDA margin by 1.4%. They are thus below the figure forecast in the third quarter of 2018 of up to €5 million (original forecast: up to €2 million). We refer to section 2.3 “Net assets, financial position and results of operations”, subsection “Results of operations”, for an explanation of how the special costs are broken down.

The euromicron Group’s working capital ratio (working capital relative to sales) fell by –3.9 percentage points to 9.0% in 2018 and so was one percentage point below the figure of around 10.0% forecast in the 2017 Annual Report. The decline is mainly attributable to a reduction in inventories and lower contract assets. This trend is also reflected in the cash flow from operating activities: Despite the non-recurring burden on the operating result and special costs, the cash flow from operating activities was positive at €3.3 million and so improved by €4.9 million over the previous year.

In summary: The Group’s earnings performance in fiscal 2018 was below expectations as a result of non-recurring effects in the “Smart Buildings” segment. These effects are cushioned by the positive performance of the Group’s other divisions. That includes in particular an increase in the quality of margins in product and solution business and in distribution business. A further positive aspect of note is the further reduction in working capital and the sharp improvement in the positive cash flow from operating activities.

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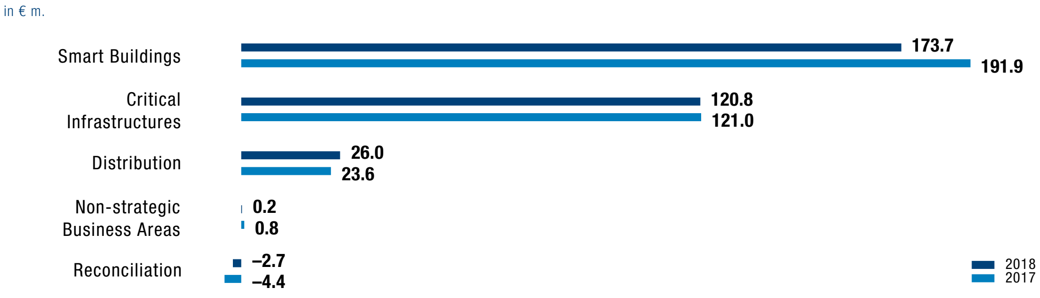
Development of the segments

The key figures for the individual segments of the euromicron Group changed as follows in fiscal 2018:

Sales

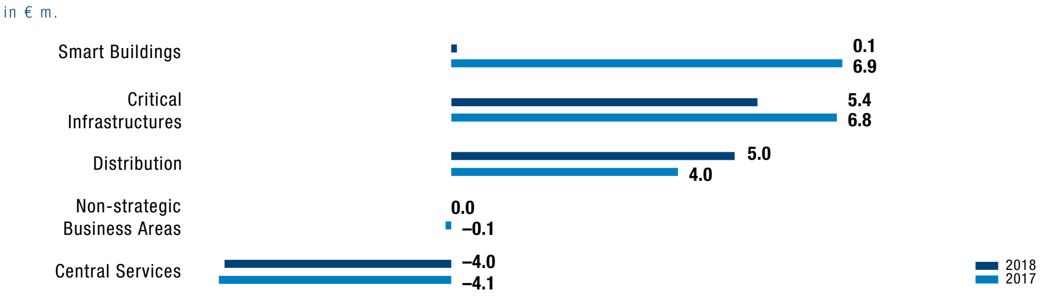


Reconciliation of the reported EBITDA with operating EBITDA / presentation of the special costs

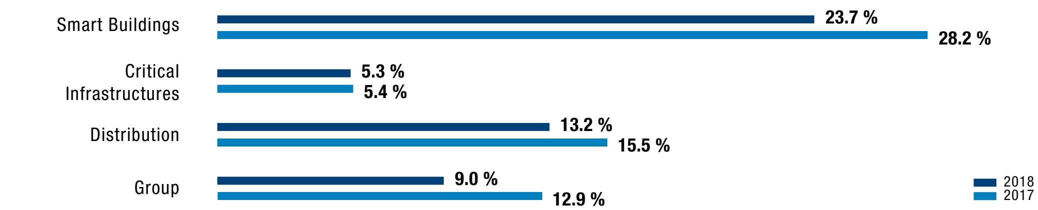
004

	2018			2017		
	Reported EBITDA	Special costs	Operating EBITDA	Reported EBITDA	Reorganization costs	Operating EBITDA
	€ m.	€ m.	€ m.	€ m.	€ m.	€ m.
Smart Buildings	–1.3	1.4	0.1	6.0	0.9	6.9
Critical Infrastructures	5.4	0.0	5.4	6.8	0.0	6.8
Distribution	5.0	0.0	5.0	4.0	0.0	4.0
Non-strategic Business Areas	–0.3	0.3	0.0	–0.5	0.4	–0.1
Central Services	–6.9	2.9	–4.0	–6.8	2.7	–4.1
Total EBITDA	**1.9**	**4.6**	**6.5**	**9.5**	**4.0**	**13.5**

Operating EBITDA



Working capital ratio



Smart Buildings
Total sales in the "Smart Buildings" segment (external sales and sales within the Group) were €173.7 million, a fall of € –18.2 million or 9.5% compared to the previous year's figure of €191.9 million. As previously presented, this was due to unplanned non-recurring effects from settlements of claims from old projects and from the streamlining of the project portfolio as part of the realignment of construction-related business, sales effects from the disposal of the "Telecommunications" division in 2017, and the sales performance of the "Network Technology" division. On the other hand, sales at the "High-voltage current" division in particular were higher.

The forecast for the "Smart Buildings" segment envisaged sales growth in the low single-digit percentage range. In addition to the previously explained causes for the year-on-year deviation in sales, there was also the fact that sales in the "Smart Industry" division were slightly below planned compared to the forecast. However, that did not have any negative impact on earnings due to the improved quality of margins at that division.

Operating EBITDA decreased by € –6.8 million from €6.9 million to €0.1 million, meaning the operating EBITDA margin fell from 3.6% to 0.1%. This decline is mainly due to an amount of € –9.5 million to the presented non-recurring effects in construction-related business. There were positive effects in this segment from the sharp increase in earnings contributed by business with smart switches and related solution business. Earnings here were able to be increased by €3.1 million year on year.

An operating EBITDA margin in the medium single-digit percentage range was forecast for 2018. Apart from the previously presented effects, a further reason for the deviation from the forecast EBITDA margin is in particular a loss in contribution margins due to lower sales than planned at euromicron Deutschland GmbH.

Special costs with an impact on EBITDA in the "Smart Buildings" segment totaled € –1.4 million and so increased over the previous year (€0.9 million). No special costs with an impact on EBITDA were forecast for this segment. € –1.2 million of the special costs were attributable in particular to costs for personnel measures at euromicron Deutschland GmbH, where there were adjustments in personnel structures in administration and sales and at individual business units.

The working capital ratio in this segment fell sharply by –4.5 percentage points to 23.7% in fiscal 2018. The forecast target of reducing the working capital ratio by up to 6.0 percentage points was therefore not met only by a narrow margin. Despite the fact that working capital was reduced sharply in absolute terms, sales were below planned and so that had a negative impact on this key figure.

We expect this segment to post sales growth of around 10% in 2019, in particular due to market development and the fact that there will no longer be any special effects. The adjusted EBITDA is expected to improve sharply and so we anticipate an adjusted EBITDA margin in the medium single-digit percentage range. As a result of continued implementation of the measures to optimize working capital, we expect a further reduction in the working capital ratio of up to 3.0 percentage points for the year after.

Critical Infrastructures
The "Critical Infrastructures" segment posted total sales of €120.8 million, i.e virtually on a par with the previous year (€121.0 million). Whereas sales increased in system house business, they declined in the business area "Technology solutions for sensitive security restricted areas". This business area relies on being awarded defined individual projects, which did not materialize to the planned extent in fiscal 2018. The forecast envisaged an increase in sales in the medium single-digit percentage range for this segment and assumed in particular that the business area "Technology solutions for sensitive security restricted areas" would post growth in sales, which did not occur in 2018 for the above-described reasons.

The segment's operating EBITDA fell by € –1.4 million to €5.4 million (previous year: €6.8 million). The operating EBITDA margin was 4.5% following 5.6% the year before. The loss of contribution margins from lower technology sales had a particular impact on that. They were only partly offset by contribution margins from higher sales by the system houses, since these sales have lower margins.

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The forecast envisaged an operating EBITDA margin of 5.6%, i.e. slightly above the level of fiscal 2017. The deviation in the operating EBITDA margin compared with the forecast is attributable to the reasons presented in the comparison with the previous year.

As in the previous year, there were no special costs with an impact on EBITDA for the “Critical Infrastructures” segment in fiscal 2018, nor were they forecast.

This segment’s working capital ratio fell from 5.4% to 5.3%, meaning that the forecast target of keeping the working capital ratio to below 7% was achieved.

Sales in fiscal year 2019 are to be increased by a figure in the medium single-digit percentage range. Whereas only moderate sales growth is assumed in system house business, this increase will be attributable in particular to higher sales in technology business. Those sales have largely been secured through orders already on the books. The anticipated adjusted EBITDA margin for 2019 is slightly above the level of 2018. In addition, a working capital ratio of below 7.0% is still aimed for in this segment.

Distribution

The segment’s sales were €26.0 million, €2.4 million or 10.2% above the level of the previous year (€23.6 million). The forecast for fiscal 2018 envisaged sales growth in the low to medium single-digit percentage range; the forecast target was thus far surpassed. Foreign distribution business in particular made an above-proportionate contribution to that.

The operating EBITDA margin was 19.1% and so well up on the previous year’s 16.9%. The operating EBITDA was thus €5.0 million, €1.0 million above the previous year’s figure. The operating EBITDA margin of around 11.5% forecast for 2018 was therefore far exceeded – in particular due to the further improvement in the gross profit margin for the sold product mix. The anticipated price-related decline in the gross profit margin did not occur.

As in the previous year, special costs were not incurred in this segment and were also not forecast.

The working capital ratio was 13.2% and so 2.3 percentage points lower than in the previous year (15.5%). As a result, the forecast target of keeping the working capital ratio slightly above the 2017 level was exceeded.

Sales at this segment in 2019 are expected to be slightly down on the previous year. The adjusted EBITDA margin of around 15% forecast for 2019 is likewise slightly below the EBITDA margin for 2018. A price-related decline in the gross profit margin was assumed in the planning; in addition, costs for the planned further expansion of the sales organization were taken into account. For the subsequent year, we expect a working capital ratio slightly above the level of 2018.

Overall, the euromicron Group generated an operating EBITDA of €10.5 million (previous year: €17.7 million) from the operating segments that must be reported. The operating EBITDA margin was 3.3% compared with 5.3% the previous year.

Non-strategic Business Areas

Liquidation of Avalan GmbH i.L. and remaining winding-up activities for RSR Datacom GmbH & Co. KG were continued as planned in the past fiscal year.

Sales in this segment, which were forecast to be €0.6 million, were just €0.2 million (previous year: €0.8 million), due to remaining winding-up activities for RSR Datacom GmbH & Co KG.

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The special costs incurred in 2018 (follow-up costs from the closures) totaled €0.3 million (previous year: €0.4 million) and so were slightly up on the forecast figure of €0.1 million

There was no operating EBITDA in fiscal 2018 (previous year: € –0.1 million).

Further sales of around €0.3 million and follow-up costs with an impact on EBITDA from the closure totaling approximately € –0.1 million are anticipated in 2019 until the planned final liquidation/winding up of these companies.

Central Services

The "Central Services" area mainly includes euromicron AG, the strategic management holding company responsible for central controlling functions for the euromicron Group.

The negative operating EBITDA for "Central Services" increased slightly from € –4.1 million to € –4.0 million in 2018. The operating EBITDA was €1.4 million better than the forecast € –5.4 million. The positive deviation from the forecast is attributable in particular to lower personnel costs and reductions in material costs.

The special costs were € –2.9 million, € –0.2 higher than in the previous year. They were € –1.0 million above the upper end of the range of € –1.7 million to € –1.9 million specified in the original forecast in the 2017 Annual Report. That is attributable in particular to unplanned effects on earnings from a provision set up for litigation costs and higher special costs for legal and consulting services. There were also unplanned special costs in connection with personnel measures.

A negative adjusted EBITDA of € –6.7 million to € –7.0 million is anticipated for the subsequent year. It should be noted in this respect that no special costs will be reported due to the future reporting structure. Taking into account this change in reporting, the EBITDA for 2019 is forecast to be around the level of 2018. Whereas there is a planned increase in personnel costs, there will be higher income from group services.

2.3 Net assets, financial position and results of operations

Net assets

The table below presents the asset and equity structure of the euromicron Group: Table 005

Asset and equity structure 005

	Dec. 31, 2018		Dec. 31, 2017	
	€ m.	%	€ m.	%
Noncurrent assets	148.4	60.9	146.8	58.2
Current assets	88.8	36.4	100.4	39.8
Cash and cash equivalents	6.5	2.7	5.0	2.0
Assets	**243.7**	**100.0**	**252.2**	**100.0**
Equity	66.2	27.2	78.6	31.1
Noncurrent liabilities	45.6	18.7	30.7	12.2
of which financial liabilities	39.7	16.3	21.7	8.6
Current liabilities	131.9	54.1	142.9	56.7
of which financial liabilities	60.3	24.7	72.6	28.8
Equity and liabilities	**243.7**	**100.0**	**252.2**	**100.0**

The euromicron Group's total assets at December 31, 2018, decreased by 3.4% to €252.2 million compared with €243.7 million in the previous year.

The increase in noncurrent assets by €1.6 million to €148.4 million (previous year: €146.8 million) is mainly the result of a €2.5 million increase in deferred tax assets. That is substantially due to the fact that deferred tax assets were carried on tax loss carryforwards.

On the other hand, intangible assets and property, plant and equipment fell by a total of € –0.9 million. That is due to the fact that amortization and depreciation (€ –9.6 million; previous year: € –8.4 million) and disposals at remaining book values (€ –0.1 million; previous year: € –0.1 million) exceeded total capital spending (€8.8 million; previous year: €14.5 million) in fiscal 2018. The investments in 2018 comprise €2.8 million (previous year: €2.8 million) on capitalized development costs, €1.0 million (previous year: €1.6 million) on other intangible assets and €5.0 million (previous year: €7.4 million) on property, plant and equipment. The previous year's figure also included additions from company acquisitions totaling €2.8 million, of which there were none in fiscal 2018.

The ratio of equity and long-term outside capital to noncurrent assets is 75.4% (previous year: 74.4%).

Current assets (excluding cash and cash equivalents) fell by € –11.6 million to €88.8 million. € –2.7 million of that decrease is due to the reduction in inventories. In particular, inventories at the system houses and technology companies in the "Critical Infrastructures" segment fell by € –2.3 due to a reduction in stocking.

In addition, contract assets (previous year: the gross amount due from customers for contract work) fell by € –11.7 million from €52.5 million to €40.8 million, due to positive effects from the Group's working capital program and the lower volume of business, as well as nonrecurring effects at euromicron Deutschland GmbH. On the other hand, trade accounts receivable rose by €2.9 million to €11.9 million (previous year: €9.0 million). This is due in particular to the lower volume of receivables sold as part of the factoring program.

Cash and cash equivalents increased by €1.6 million to €6.6 million. We refer in this regard to the consolidated statement of cash flows and the comments on the Group's financial situation.

Working capital, which is calculated as trade accounts receivable and contract assets (previous year: the gross amount due from customers for contract work) and inventories minus trade accounts payable and contract liabilities (previous year: the gross amount due to customers for contract work and prepayments) was €28.7 million at the balance sheet date, a sharp decrease of € –14.3 million over the previous year (€43.0 million). The reduction in working capital is mainly attributable to the described decrease in inventories and contract assets. The Group's working capital ratio (working capital relative to sales) thus fell sharply by 3.9 percentage points to 9.0% in 2018 (previous year: 12.9%).

Equity at December 31, 2018, was €66.2 million and so below the level of the previous year (€78.6 million). The equity ratio was 27.2% (previous year: 31.1%), but still at a high level. The decline in equity by € –12.4 million is mainly due to an amount of € –11.2 million to the consolidated net loss in fiscal 2018. In addition, revaluation effects from pensions, which had to be recognized directly in equity, reduced equity by € –0.3 million. Moreover, the adjustments from first-time application of IFRS 9 and IFRS 15 effective January 1, 2018, which had to be recognized directly in equity, and other effects reduced equity by € –0.7 million and € –0.2 million respectively.

Noncurrent liabilities increased by €14.9 million to €45.6 million in fiscal 2018 (previous year: €30.7 million). This increase is attributable to an amount of €19.0 million to higher long-term liabilities to banks and is mainly the result of reclassification of liabilities from long-term to short-term liabilities to banks (owing to the length of time in which they are due) pursuant to the financing agreement concluded in March 2018. On the other hand, there was in particular a reduction in deferred tax liabilities and other noncurrent financial liabilities of € –2.9 million and € –0.6 million respectively.

Current liabilities declined by € –11.0 million to €131.9 million (previous year: €142.9 million). € –11.9 million of this fall is due to lower short-term liabilities to banks, resulting to an amount of € –19.0 million from the above-mentioned reclassification as long-term liabilities to banks owing due to the length of time in which they are due. On the other hand, utilization of short-term credit lines increased by €7.1 million.

The Group's net financial debt (the total of liabilities to banks and from finance leases less cash and cash equivalents) at December 31, 2018, totaled €92.2 million (previous year: €87.3 million). The increase in net financial debt of €4.9 million is attributable to an amount of €4.2 million thousand to effects from the euromicron Group's factoring program. The lower volume of sold receivables at December 31, 2018, had a particular impact on that.

Trade accounts payable at the key date increased slightly by €1.6 million to €48.6 million compared to €47.0 million in the previous year.

There were counter-effects among the current liabilities, in particular due to a € –1.2 million drop in other tax liabilities (mainly value-added tax) and a € –1.1 million decline in other liabilities. € –1.0 million of the decline in other liabilities is attributable to the change in recognition of prepayments under IFRS 15, because prepayments have had to be carried under "Contract liabilities" since fiscal of 2018.

Financial position

The Group is largely financed centrally through euromicron AG. This is done through a central cash pooling system to which all Group companies are linked in principle. Internal financial equalization as part of a cash management system of the individual companies reduces the volume of outside funding at the Group. Centralization of financing makes a contribution to optimizing the costs of capital and the opportunities for obtaining and investing capital. Apart from financing through euromicron AG, individual Group companies have a number of smaller lines of funding, which are however insignificant in terms of volume.

At December 31, 2018, unutilized promised credit lines of €17.9 million were available to the Group (previous year: €23.5 million).

The Group's cash funds changed in fiscal 2018 as follows: Table 006

Statement of cash flows of the euromicron Group 006

for the period January 1 to December 31, 2018 (IFRS)	2018	2017
	€ thou.	€ thou.
Net cash provided by/used in operating activities	**3,346**	**–1,560**
Net cash used in investing activities	**–7,803**	**–13,471**
Net cash provided by financing activities	**6,056**	**13,141**
Net change in cash funds	1,599	–1,890
Cash funds at start of period	4,954	6,844
Cash funds at end of period	**6,553**	**4,954**

The reported net cash provided by operating activities in fiscal 2018 was €3.3 million (previous year: net cash used of € –1.6 million): However, the reported cash flow figures from operating activities are substantially impacted by effects resulting from the Group's factoring program.

In order to obtain comparable cash flow figures that permit a statement to be made on the development of cash flows from operating activities, the figure was therefore adjusted to take into account the factoring effects.

This involves the following:

- Elimination of the effect from the change in the volume of factoring used between the balance sheet date and the respective balance sheet date for the previous period. This resulted in a negative cash flow effect to be eliminated of € –2.8 million at December 31, 2018 (previous year: € –2.3 million), due to the lower volume of factoring compared with at December 31, 2017.
- Where Group companies received monies from customers resulting from receivables sold as part of factoring shortly before the balance sheet date and the Group companies were not able to pay these monies over to the factoring company, this results in a liability from customer monies to be passed on, which is carried under “Other financial liabilities”. The effect on liquidity from the change in these liabilities between the respective balance sheet date and the balance sheet date of the previous period is eliminated for the purposes of analyzing the cash flow from operating activities. That resulted in an effect of € –0.1 million in the fiscal year (previous year: no effect).
- The full amount of the receivable offered for sale is initially not paid out by the factoring company, but a blocked amount is withheld. Some of the sold receivables were also still being examined and so had not been paid out by the factoring company. The resultant receivable due from the factoring company is carried under “Other financial assets”; here too, the change in the balance sheet item has to be eliminated for the purposes of analyzing the cash flow from operating activities. This negative cash flow effect to be eliminated was € –1.3 million in 2018 (previous year: positive cash flow effect to be eliminated of €0.3 million).

All in all, reconciliation of these three factors results in cash flows from operating activities after adjustment for factoring effects as summarized in the table below: Table 007

Adjusted cash flow 007

	Cash flow from operating activities in acc. with the statement of cash flows	Effects from factoring and customers' monies to be passed on included in the above	Adjusted cash flow
	€ m.	€ m.	€ m.
2017	–1.6	2.0	0.4
2018	**3.3**	**4.2**	**7.5**

The described factoring effects meant there was a negative cash flow effect of € –4.2 million in fiscal 2018, which resulted correspondingly in a greater need for external financing and so an increase in the euromicron Group’s net financial debt.

After adjustment for factoring effects, there was net cash provided by operating activities totaling €7.5 million in fiscal 2018 compared with €0.4 million in the previous year. As a result, the cash flow from operating activities after adjustment for the effects of factoring rose sharply by €7.1 million in fiscal 2018.

Coupled with an decrease in EBITDA of € –7.6 million and a € –0.7 million higher cash outflow from the balance of paid and received income taxes and interest, this is attributable to an amount of €16.2 million to effects from the change in working capital: Whereas the slight increase in working capital resulted in negative cash flow effects of € –2.5 million in 2017, the cash flow for 2018 was influenced positively to an amount of €13.7 million by the decrease in working capital. That was countered slightly by effects of € –0.8 million from the change in other items.

Net cash used in investing activities is derived from the net cash from the disposal of assets and the net cash used for investments in property, plant and equipment and intangible assets, as well as company acquisitions. The net cash used in the fiscal year was € –7.8 million or €5.7 million lower than in the previous year (€ –13.5 million). This is mainly the result of lower net cash used in purchasing property, plant and equipment (€ –2.7 million) and in purchasing intangible assets (€ –0.7 million). Apart from that, the year-on-year decrease of € –1.6 million in net cash used in company

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acquisitions (in the previous year: mainly as a result of the acquisition of KORAMIS GmbH) and the fact that there were no longer effects from the disposal of subsidiaries and other business units (previous year: € –0.7 million; mainly in connection with disposal of the "Telecommunications" division of euromicron Deutschland GmbH) led to a decrease in net cash used in investing activities compared to the previous year.

After adjustment for factoring effects, there was almost a balanced free cash flow in 2018 of € –0.3 million (previous year: € –13.1 million).

The net cash provided by financing activities in fiscal 2018 was €6.1 million (previous year: €13.1 million). This is due to an amount of €6.7 million (previous year: €13.9 million) to the raising of new financial loans that exceeded the net cash used to repay loans. On the other hand, there were cash repayments of liabilities from finance leases totaling € –0.5 million (previous year: € –0.5 million) and distributions to non-controlling shareholders and from profit shares of minority interests totaling € –0.1 million (previous year: € –0.3 million).

Results of operations

The results of operations of the euromicron Group are shown in the table below. Table 008

Results of operations 008

Income statement of the euromicron Group for the period January 1 to December 31, 2018 (IFRS)	2018 incl. special costs	Special costs	2018 operational*	2017 incl. reorganization costs	Reorganization costs	2017 operational*
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Sales	**318,012**	**231**	**317,781**	**332,908**	**–12**	**332,920**
Inventory changes	–670	0	–670	–612	0	–612
Own work capitalized	3,362	0	3,362	3,389	0	3,389
Other operating income	1,779	71	1,708	2,190	7	2,183
Cost of materials	–165,112	–428	–164,684	–172,432	–25	–172,407
Personnel costs	–114,304	–1,577	–112,727	–112,551	–826	–111,725
Other operating expenses	–41,181	–2,906	–38,275	–43,389	–3,127	–40,262
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**1,886**	**–4,609**	**6,495**	**9,503**	**–3,983**	**13,486**
Depreciation/amortization	–9,636	2	–9,634	–8,405	0	–8,405
Earnings before interest and taxes (EBIT)	**–7,750**	**–4,611**	**–3,139**	**1,098**	**–3,983**	**5,081**
Interest income	23	0	23	313	0	313
Interest expenses	–6,282	–350	–5,932	–4,943	–120	–4,823
Other financial income	0	0	0	200	0	200
Other financial expenses	–34	0	–34	–219	0	–219
Income before income taxes	**–14,043**	**–4,961**	**–9,082**	**–3,551**	**–4,103**	**552**
Income taxes	2,896	0	2,896	45	0	45
Consolidated net loss/net income for the year	**–11,147**	**–4,961**	**–6,186**	**–3,506**	**–4,103**	**597**
Thereof for euromicron AG shareholders	–11,466	–4,961	–6,505	–3,769	–4,103	334
Thereof for non-controlling interests	319	0	319	263	0	263
(Un)diluted earnings per share in €	**–1.60**	**–0.69**	**–0.91**	**–0.53**	**–0.57**	**0.05**

* Adjusted for special costs (previous year: special effects of the reorganization).

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As in previous years, consolidated earnings for 2018 were reduced by special costs incurred as part of the strategic realignment. The special costs are distributed over the individual companies of the euromicron Group as follows: Tabelle 009

Special costs 009

	2018	2017
	€ thou.	€ thou.
Special costs (with an impact on EBITDA)		
euromicron AG	–2,931	–2,727
euromicron Deutschland GmbH	–1,420	–910
Avalan GmbH (in liquidation)	–154	–204
RSR Datacom GmbH & Co. KG	–107	–40
RSR Datacom Verwaltungs GmbH	3	0
euromicron NBG Fiber Optics GmbH	0	–84
euromicron benelux S.A.	0	–14
ssm euromicron GmbH	0	–4
Total special costs with an impact on EBITDA	**–4,609**	**–3,983**
Special costs (write-downs)		
RSR Datacom GmbH & Co. KG	–2	0
Total special costs with an impact on EBIT	**–4,611**	**–3,983**
Special costs (net financial result)		
euromicron AG	–350	–120
Total special costs	**–4,961**	**–4,103**

The special costs of euromicron AG (totaling € –3.3 million) were mainly due to costs for legal advice, costs for financial advice, other consulting costs, costs for personnel measures, court and litigation costs, costs for interim managers and costs in connection with structuring of funding.

The lion’s share of the special costs of € –1.4 million at euromicron Deutschland GmbH resulted from costs to optimize the personnel structure (€ –1.2 million).

The special costs of Avalan (in liquidation), RSR Datacom GmbH and RSR Datacom Verwaltungs GmbH (totaling €0.3 million) result from follow-up costs from the closure of these companies, whose business operations were discontinued at the end of 2015 and 2016 respectively.

The following explains the year-on-year changes in the results of operations of the euromicron Group after adjustment for the special effects:

The euromicron Group generated sales of €317.8 million in fiscal 2018 and so € –15.1 million or 4.5% below the previous year’s figure of €332.9. We refer to the presentation of the segments’ development for an explanation of the decrease in sales.

A breakdown by the various regions shows that most sales were posted within Germany, as in previous years. The sales generated in Germany in fiscal 2018 were €264.5 million (previous year: €277.8 million) or a share of 83.2% (previous year: 83.4%). Foreign sales fell slightly in fiscal 2018 from €55.1 million to €53.5 million, with the result that international sales contributed around 16.8% (previous year: 16.6%) to the euromicron Group’s total volume of sales.

The euromicron Group's total operating performance (sales plus inventory changes) was €317.1 million, down € –15.2 million or 4.6% on the previous year (€332.3 million).

Own work capitalized was €3.4 million and so at the level of the previous year (€3.4 million). The euromicron Group continued to invest in developing new products to expand its market position and increase its innovativeness. As in the previous year, the focus of development activities in 2018 was at MICROSENS GmbH & Co. KG, where own work capitalized totaled €1.5 million (previous year: €1.8 million).

Other operating income was €1.7 million, a fall of € –0.5 million over the previous year (€2.2 million). That was due in particular to an amount of € –0.3 million to lower foreign currency gains.

As in the previous year, the cost of materials was the largest expense item in the euromicron Group's income statement. The (adjusted) cost of materials in fiscal 2018 was €164.7 million (previous year: €172.4 million); its (adjusted) ratio to total operating performance (material usage ratio) remained constant at 51.9%. There were negative margin effects of – 1.5 percentage points in the Group as a whole, resulting from the previously presented non-recurring effects at euromicron Deutschland GmbH, but they were offset by a more positive, higher-margin product and solution mix at the technology companies. We refer in this regard to the comments in the section "General statement on the performance of the euromicron Group in fiscal year 2018".

(Adjusted) personnel costs increased in fiscal 2018 by €1.0 million from €111.7 million to €112.7 million, a rise of 0.9%. The average headcount (excluding trainees) in the year under review rose by 4.4% from 1,768 to 1,846. The effects from the larger workforce and pay adjustments were countered in particular by lower performance-related compensation and effects from lower provisions for vacation and flexitime.

(Adjusted) other operating expenses in the fiscal year were €38.3 million, € –2.0 million below the comparative figure for the previous year of €40.3. The decline was due in particular to lower costs for personnel leasing (€ –0.6 million), lower allowances for trade accounts receivable (€ –0.6 million) and lower foreign currency losses (€ –0.5 million). The largest items in the (adjusted) other operating expenses were still vehicle and travel expenses (€12.5 million; previous year: €12.5 million), rent/room costs, including ancillary costs of tenancy (€7.3 million; previous year: €7.2 million) and legal and consulting costs (€3.0 million; previous year: €3.1 million).

Operating earnings before interest, taxes, depreciation and amortization (operating EBITDA) totaled €6.5 million (previous year: €13.5 million). The operating EBITDA margin was 2.0% (previous year: 4.1%).

(Adjusted) amortization and depreciation totaled €9.6 million, an increase of €1.2 million compared with the previous year (€8.4 million). That was attributable in particular to higher amortization and depreciation due to the capital spending in the previous year.

After allowing for amortization and depreciation, operating EBIT was € –3.1 million, a fall of € –8.2 million over the previous year (€5.1 million).

The (adjusted) net financial result was € –5.9 million, € –1.4 million down on the previous year (€ –4.5 million). That was caused by the higher utilization of the credit lines during the year and adjusted interest terms.

The tax ratio in the year under review was 20.6% after 1.3% in the previous year. Tax income was €2.9 million (previous year: €45 thousand). The deviation from the anticipated tax ratio of 30% (expected tax income: €4.2 million) is attributable to an amount of € –0.6 million to the fact that, as a result of the current tax losses made by a number of companies, no deferred tax assets were carried on tax losses incurred in fiscal 2018 in accordance with IFRS regulations, which meant there was a negative impact on the tax ratio. In particular, the net tax expenses and income not related to the period also had a negative impact of € –0.7 million on the tax ratio.

We refer in this regard to the tax reconciliation in section 24 of the notes on the consolidated income statement.

The (adjusted) consolidated net loss for shareholders of euromicron AG was € –6.5 million (previous year: consolidated net income of €0.3 million). (Adjusted) undiluted earnings per share were € –0.91 versus €0.05 in the previous year.

Without adjustment for special effects, the consolidated net loss for shareholders of euromicron AG for fiscal 2018 was € –11.5 million (previous year: € –3.8 million) and the undiluted earnings per share € –1.60 (previous year: € –0.53).

New orders and order books

New orders at the euromicron Group in fiscal 2018 were €336.6 million (previous year: €341.2 million), a decline of € –4.6 million or –1.3%. Order books at December 31, 2018, were €149.1 million, €22.0 million or 17.3% above the previous year's figure of €127.1 million.

It should be noted in this regard that the above figures for fiscal years 2017 and 2018 still contain new orders and order books from the divisions that have been discontinued or sold in the meantime.

New orders from continuing core business totaled €336.4 million (previous year: €333.4 million), a year-over-year increase of €3.0 million or 0.9%.

Order books from continuing core business totaled €148.6 million (previous year: €126.5 million), an increase of €22.1 million or 17.5% and a good springboard for fiscal 2019.

2.4 Non-financial performance indicators

As a German specialist for the Internet of Things, not only key economic ratios are important for us, but also the sustainability of our activities. That is also reflected in the non-financial performance indicators. Competent and motivated employees, sparing use of the natural resources available to us, increasing and preserving our brand value, our customers' satisfaction and social responsibility are preconditions for our Group's sustainability. We endeavor to increase and improve sustainability at all times.

Employee development and loyalty

It goes without saying that qualified, motivated employees are vital to a company's competitiveness. The euromicron Group aims to employ qualified and committed employees at all times and to offer them attractive working conditions and prospects.

The average headcount in fiscal 2018 increased slightly from 1,833 to 1,917 or by 4.6%. The average number of employees (excluding trainees) was 1,846, an increase of 4.4% over the previous year (1,768).

Personnel costs in fiscal 2018 were €114.3 million compared with €112.6 million in the previous year. After adjustment for special costs, personnel costs were €112.7 million (previous year: €111.7 million). Personnel costs after adjustment for special costs consequently increased by €1.0 million or 0.9%.

Enhancing the loyalty of our employees to euromicron is a key task for us. They and their expertise and dedication are the main guarantee of our Group's sustainable success and further development – especially in times of a shortage of skilled workers and demographic change.

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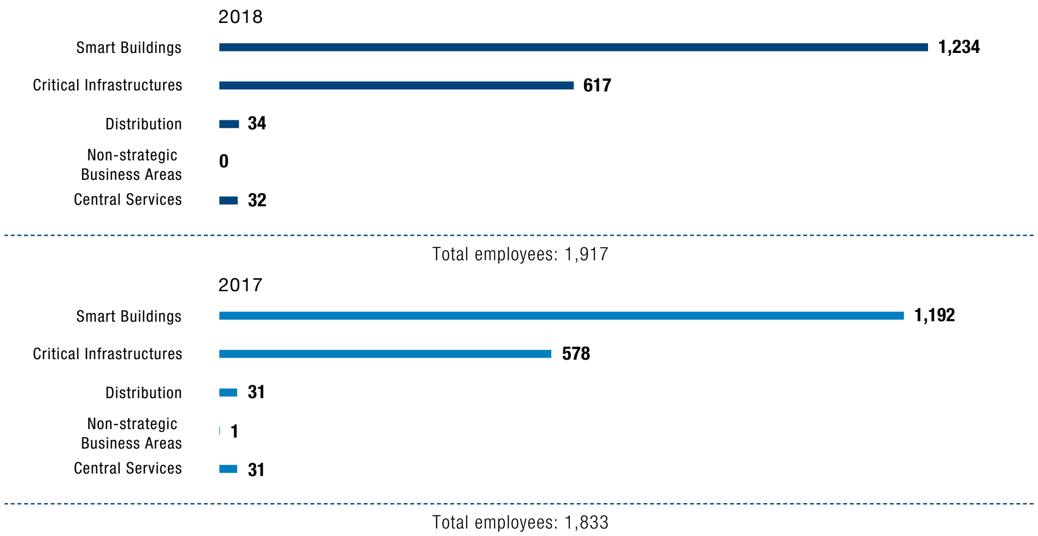
Our focus in personnel development is therefore on close cooperation with the individual employees. We also nurture constructive dialog with the HR departments and managers at our locations.

Employees by segment



Employee qualification

euromicron's activities relating to personnel development and employee qualification are also undergoing change. New learning concepts, digital formats and networking events are intended to prepare employees for the rapid developments and changes in markets.

Personnel development is increasingly becoming part and parcel of and flanking an organizational development process that continuously helps new practical knowledge an expertise be shared throughout the Group and enables dialog between all parties.

One area of emphasis is to promote and ensure open, transparent communication between employees and their managers. That means ideal measures for qualifying employees to suit their individual needs can be defined better. As part of the HR strategy, our HR tools such as performance and career reviews, agreements on objectives and development plans support communication between the teams and managers.

Trainee ratio

euromicron attaches great importance to training its own future experts. The euromicron Group's trainee ratio in the year under review was 3.8% and so at a similar high level as in the previous year (4.0%). Our goal for fiscal 2019 is to keep the trainee ratio at that level.

Under euromicron's trainee program, trainees at the Group are provided with support as they start they career, while collaboration and dialog among them and with other staff are strengthened.

Diverse measures help trainees get to know the company and their colleagues. The trainee program contains modules such as "Business etiquette" and "Visit to the Smart Factory", as well as the possibility of job rotation and dialog with euromicron's Executive Board. The program is rounded out by an annual meeting of all trainers in the euromicron Group so that they can share notes.

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Responsible use of natural resources
euromicron and its subsidiaries predominantly operate in the service sector. Consequently, the details on resource consumption mainly relate to operation of its own buildings (energy, water, waste) and indirectly to processes at customers that are impacted by euromicron's products and services. In operating its headquarters and own buildings, euromicron ensures the use of smart technologies and control systems to minimize consumption.

As part of moving to new locations, we also ensured that the new buildings meet the latest environmental protection guidelines. The existing and new offices and workplaces have been equipped with energy-efficient equipment whose individual components are predominantly recyclable. All in all, euromicron makes a major contribution to achieving green IT by using hardware that has low power consumption.

The production operations of euromicron's technology companies are also geared to energy-saving processes. These include, for example, computer-aided control of the standby switches or the continuous review and rollout of electric motors with higher efficiency classes. Although none of the Group's companies is subject to special environmental protection guidelines, euromicron nevertheless aims to live up to its responsibility for society as a whole and so attaches great importance to complying with environmental protection regulations.

In procuring new vehicles for the fleet, whether by leasing or other means of expanding it, the companies in the euromicron Group attach importance to economical vehicles with low CO_2 emissions. The Group-wide Car Policy was updated with a focus on reducing CO_2 and has been in force since January 1, 2018. For the first time, a limit to the maximum CO_2 emission figures for vehicles that can be chosen has been defined: They are between 150g and 180g CO_2/km, depending on the user group.

In the case of existing vehicles, we ensure that they are passed on internally. In order to enhance preventive healthcare among employees, the cars used in the fleet also have ergonomic seats as minimum equipment. euromicron is also examining the possibility of converting the fleet to electric vehicles or ones with alternative drives.

Consequently, euromicron's corporate philosophy, which is geared toward sustainability, is not only manifested in its commercial operations, but also in sparing use of natural resources.

Established brands and growing visibility
Under the umbrella brand "euromicron", the Group and its technology companies have corporate brands that in some cases have been established in their specific market segment for more than 40 years. These brands include LWL-Sachsenkabel, telent, MICROSENS and ELABO, for example.

All the brands have a high reputation and so a brand value in their segment due to the fact that they have operated so long and successfully in the market. Preserving and increasing the value of our brands will continue to be a key element of our corporate strategy in future: Continuous investments in product innovations, modern manufacturing methods, patent applications and appropriate sales and marketing activities help entrench our brands lastingly in their special segments.

Strategic partnerships with leading technology suppliers are also key success criteria for best-in-class solutions. Thanks to our many established partnerships with vendors in the fields of network, transmission and security technology, we are able to deliver ideal solutions for the customer's specific needs. euromicron has a trusted working relationship with all leading vendors on the market and holds the highest levels of certification from just about all technology partners. Our customers benefit from technical further developments by our partners and our excellent collaboration with them.

We still keep on striving to enhance the visibility and image of our umbrella brand. Further positioning of the euromicron brand is especially important so that in particular our realignment toward clearly defined segments in the growth market of the Internet of Things can be presented understandably and in detail on the capital market.

We aim to increase the value of the euromicron brand on the capital market, as well as ensure transparent, clear reporting as the basis of a trusted relationship with our investors. As part of that, we conduct active investor and public relations work. In the year under review, we presented our company in a raft of investor conferences and roadshows, as well as in programs and articles in various media.

We demonstrated the innovativeness and high performance of the euromicron Group at prestigious international trade shows, such as “productronica”, the world’s leading trade fair for electronics development and production, InnoTrans, the international trade show for transport technology, or “it-sa”, Europe’s leading IT security fair.

Customers and quality

Apart from our employees and our visibility as a brand, another aspect of great importance to us is to ensure the products and services we offer give our customers maximum satisfaction. That demands the very highest standards as regards the quality of our processes, products and services, and employees.

We gage our customers’ satisfaction by means of standardized customer satisfaction surveys and analyses. We thus use customer feedback to actively achieve potentials for improvement and optimization.

To meet the very highest demands made of the quality of our products and services, some of euromicron’s companies are certified in accordance with ISO 9001. In the production arena, we also hold certification, for example for making and assembling certain products, as well as approvals to supply specific products and solutions.

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3 Forecast, Opportunity and Risk Report

3.1 Explanation of deviations from the previous year's forecast

The previous year's forecast envisaged a sales target of €340 million to €360 million. and an operating EBITDA margin between 4.0% and 5.0% for fiscal 2018. It was also anticipated that special costs would still reduce EBITDA in fiscal 2018 by around €2.0 million. A working capital ratio of around 10% was forecast.

The forecast for fiscal 2018 was adjusted with publication of the report on the third quarter of 2018 on November 8, 2018. The adjusted forecast envisaged sales of €310 million to €330 million for fiscal 2018. An operating EBITDA margin in the range between 2.0% and 4.0% was forecast. The expected reduction in EBITDA by special costs was put at up to €5.0 million. The forecast for the working capital ratio remained unchanged.

The forecast was adjusted since the sales and earnings performance of the euromicron Group in the first nine months of fiscal 2018 was below the planned figures and burdens on earnings were also anticipated for the fourth quarter of 2018. One particular cause of that were structural deficits at individual divisions of the "Smart Buildings" segment, which were remedied by the end of the year by extensive packages of measures. The realignment also entailed higher special costs at the Group.

In addition, the fall in sales in the business area "Technology solutions for sensitive security restricted areas" meant that earnings in the "Critical Infrastructures" segment were reduced. This business area relies on being awarded defined individual projects. Postponements in these projects cannot usually be offset soon in terms of sales and earnings.

Sales in fiscal year 2018 were €318.0 million and so at the middle of the adjusted forecast range of €310 million to €330 million. Operating EBITDA in fiscal 2018 was thus €6.5 million. The operating EBITDA margin was 2.0% and so at the lower end of the target range of 2.0% to 4.0% in the adjusted forecast. Special costs reduced EBITDA by €4.6 million in fiscal 2018 and so were lower than the €5.0 million expected in the adjusted forecast. The working capital ratio was 9.0% and so one percentage point better than the forecast figure of around 10.0%.

For the purpose of explaining the deviation between the actual and forecast figures for fiscal 2018, reference is made to the original forecast for fiscal 2018, irrespective of the adjusted forecast dated November 8, 2018.

As part of that, the actual figures for sales and operating EBITDA/operating EBITDA margin are compared with the lower thresholds of the original forecast. The actual figure for special costs with an impact on EBITDA is compared with the figure from the original forecast of €2.0 million.

We refer to the section "Development of the segments" in 2.2 "Course of business" as regards segment-specific reporting on the forecasts. P.050

Deviation from forecast sales

Deviation from forecast sales 010

	€ m.
Forecast sales for 2018 (lower end of the forecast range)	340.0
Actual sales in 2018	318.0
Deviation from the forecast	**–22.0**

The deviation from the forecast sales totaling € –22.0 million is due for the very great part to an amount of € –19.3 million to lower sales at the "Smart Buildings" segment. Unplanned

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non-recurring effects from settlements of claims from old projects and from the streamlining of the project portfolio as part of the realignment of construction-related business accounted for € –9.2 million of that. A further € –9.0 million resulted from sales below the planned level at the "Network Technology" division, which was reorganized in the second half of 2018.

In addition, there was a deviation of € –4.2 million from the sales forecast for the "Critical Infrastructures" segment, which was mainly attributable to postponements in sales in the business area "Technology solutions for sensitive security restricted areas".

On the other hand, the sales generated by the "Distribution" segment were €2.0 million higher than forecast as a result of the positive trend on the Italian sales market. The remaining deviation in sales from the forecast (€ –0.5 million) was due in particular to higher cross-segment consolidation effects.
Table 010

Deviation from forecast operating EBITDA

Deviation from forecast operating EBITDA 011

	€ m.
Forecast operating EBITDA for 2018 (lower end of the forecast range)	13.6
Actual operating EBITDA in 2018	6.5
Deviation from the forecast	**–7.1**

The deviation from the forecast for operating EBITDA (€ –7.1 million) is due to an amount of € –15.3 million to the act that gross operating profit was below planned. The main reason for that was effects on gross operating profit of € –9.5 million from the previously presented non-recurring effects in construction-related business. The remaining effect of € –5.8 million on gross operating profit is due to the fact that total operating performance was below planned (despite a material usage ratio that was 0.3 percentage points better than forecast).

Since personnel costs and material costs were able to be adjusted to the lower volume of sales, there was a positive EBITDA effect of €6.7 million. Other operating income, which was €1.1 higher, and own work capitalized, which was €0.4 million higher, also had a positive effect. Table 011

Deviation from forecast special costs

Deviation from forecast special costs 012

	€ m.
Forecast special costs with an impact on EBITDA for 2018	around –2.0
Actual special costs with an impact on EBITDA in 2018	–4.6
Deviation from the forecast	**–2.6**

The € –2.6 million deviation from the forecast for special costs is due to an amount of € –1.4 million to the "Smart Buildings" segment and mainly comprises unplanned costs for measures to adjust the personnel structure at euromicron Deutschland. In addition, special costs at euromicron AG ("Central Services" area) were € –1.2 million above the forecast figure. € –0.5 of the extra costs result from effects on earnings from a provision set up for litigation costs. Apart from that, the special costs for legal and consulting services and the costs of measures in the area of human resources at euromicron AG were slightly higher than planned. Table 012

Deviation from forecast working capital ratio

Deviation from the forecast working capital ratio 013

	%
Forecast working capital ratio for 2018	around 10 %
Actual working capital ratio in 2018	9.0 %
Deviation from the forecast	**–1.0 %**

The plan envisaged reducing the working capital ratio (defined as working capital relative to sales) by around 10% by continuation of the Group-wide working capital program. The working capital ratio fell in 2018 by –3.9 percentage points to 9.0% and so was one percentage point above the forecast figure. That is attributable in particular to the fact that the working capital ratios at the "Critical Infrastructures" and "Distribution" segments improved more strongly than forecast. Table 013

3.2 Risk report and salient features of the risk management system

Risk strategy and general risk management

euromicron AG and its subsidiaries have an established risk management system based on statutory stipulations and that also includes analysis of opportunities. The risk management system identifies and documents the main risks and opportunities in accordance with their risk categories and assesses them as regards the probability of their occurring and the level of financial damage. The risk management system is applied in standardized form at all associated companies and is an integral part of their extensive continuous planning, controlling and reporting processes. This ensures that the Executive Board is informed promptly of all major risks and can respond suitably. The risk management system also covers the accounting processes. Group-wide policies are in place to ensure compliance with consistent standards in the risk management system and accounting process.

The internal control system and compliance policies are inseparable from the risk management system. They ensure that financial reporting is performed correctly and the rules of conduct are observed by employees. The existing system of controls and policies enables the euromicron Group to comply with the stipulations of the corporate governance guidelines. The focus is in particular on finance and accounting, controlling and taxes, legal and compliance and the main operating processes.

Risk identification, risk assessment and risk management

A risk owner has been appointed at every subsidiary and reports to central Controlling and the central risk manager at euromicron AG. Opportunities and risks are classified in the following categories in accordance with the risk management system.

Every identified risk is assessed in terms of the probability of its occurring and its specific level of damage. The probability of a risk occurring is defined as follows:

Probability of the risk occurring

Definition			
1 Low	2 Moderate	3 High	4 Very high
> 0 to ≤ 20%	> 20 to ≤ 50%	> 50 to ≤ 80%	> 80%

The assessment is conducted for the 12 months subsequent to the reporting date for the above categories before the measures taken to limit the risk and before the planned measures to limit risks (analysis of the gross risk). However, all risks (including long-term ones) are reported and analyzed. The forward-rolling 12-month period helps ensure clear segregation as part of the assessment.

Due to the different sizes and business areas of the individual subsidiaries, euromicron's risk management system has a detailed structure. Sweeping damage categories have been deliberately avoided so that the risk exposure at the individual companies can be presented. The level of damage is calculated as a ratio of the respective EBIT and multiplied by the likelihood of the risk occurring. That ensures that risks can be compared and aggregated.

The Executive Board of euromicron AG is notified as warranted if defined thresholds for key individual risks are exceeded. Three thresholds have been defined and are based on the size of the company in question.

Categories in the risk management system

Risik management system							
Markets and competition	Products, technology and R&D	Projects	Finances and liquidity	Procurement and production	Service and sales	IT	Corporate

Presentation of the risks

The following explains the existing risks that may have significant negative impacts on our business situation, net assets, financial position, results of operations and reputation, based on the regular reporting as part of risk management at December 31, 2018, as well as the individual categories in more detail.

The sequence in which the risks are presented within the categories reflects the current assessment of the relative risk measure and so offers a starting point for the current significance of these risks for euromicron AG. Further risks of which we are currently unaware, or risks that we currently assess as immaterial, may also have a negative impact on our business activities and objectives.

Markets and competition

In principle, the euromicron Group is dependent on positive economic trends in the Euro zone; the German market accounts for around 83.2% (previous year: 83.4%) of the company's sales and so is crucial to its success. Germany is also the place of activity of most of euromicron's subsidiaries, which benefit from investments in communications, security and data networks. Consequently, the development of the German market is of great significance for the overall Group's earnings. Given the general economic forecasts and positive expectations for the ICT industry, the probability of economic risks that impact euromicron occurring in the German market is assessed as low for 2019. According to current assessments, the slightly weaker growth expectations in the Euro zone will not have any direct impact on euromicron. There are currently only few business relationships outside the European economies. However, there is the risk of postponements in sales due to geopolitical developments for individual subsidiaries.

Apart from economic risks, euromicron is subject to the fundamental risks relating to competition and the related pressure on prices. Margins may be reduced due to intense competition. euromicron tackles these challenges by means of diversification and by nurturing intensive contacts with customers so as to be able to offer top-quality products and services at competitive prices. Certain subsidiaries have a low degree of dependence on individual large accounts. This risk at the Group level is relativized, since – as in the previous year – only one customer accounts for more than 10% of total sales. The risk of default by large customers is assessed as being low due to their very good creditworthiness. The risk of nonpayment is additionally reduced by factoring of some receivables from customers.

Products, technologies and R&D

Technology/R&D risks exist to the extent that leaps in technology might mean the loss of technological leadership. However, that applies to the Group only to a limited extent: euromicron's system houses and distributors can keep up with technological innovations without any problems because they have access to their own products and a diversified product portfolio from a wide range of different vendors (philosophy of vendor independence) for delivering customer solutions. euromicron's customers demand that the technology companies deliver top-quality, tailored solutions. To meet this requirement, euromicron's development departments not only respond to technological trends, but also occupy a pioneering role in research and development. To achieve that, the development units at the technology companies have been expanded in the past years and the quality and quantity of support for them enhanced by enlisting the services of external development partners. Due to the continued investments in innovative new products and solutions, which is also reflected in the capitalized development costs, only low risks to the Group's future earnings performance are seen in this area.

Projects

Project business harbors general risks that can never be ruled out completely, but are countered with clearly defined measures.

They include risks from up-front financing for projects. The Group's system integration companies are primarily affected by up-front financing for projects. If a customer does not meet its payment obligations, the result may be financial losses, depending on the size of the project. To minimize this risk, there are clear stipulations that down-payments and partial invoices should be agreed when the project is accepted, and that partial invoices are to be submitted regularly during the project, so that up-front financing and so potential risks of default are minimized. In addition, the business administration organization and the units Construction Law and Claim Management have been strengthened.

Further risks are also the realization of revenue billed for individual large projects acquired by euromicron Deutschland GmbH in previous periods. In some cases, final negotiations are being conducted with the customers; in individual cases, claims are also currently being enforced through legal action, which means receipt of payment may be delayed. This risk was reflected in measurement of revenues from these projects as part of preparation of the annual financial statements. Nevertheless, there may be new findings in subsequent periods that may result in an amended assessment of their revenue measurement.

Further extensive structural measures were implemented at euromicron Deutschland GmbH in fiscal 2018 in order to minimize risks in the future. As part of the realignment of construction-related business, restructuring was carried out in various regions where larger projects are now not handled any more. Instead, the business focus of these regions is now on higher-margin small projects and on service business. As a result of the adjustment to the personnel structure in these regions, the measures minimize the risk profile and also entail a perceptible reduction in costs.

Risks in project business also lie in the adequate availability of qualified subcontractors and price developments on the subcontractor market. Since 2018, euromicron has addressed the current market trend – a growing shortage of personnel resources in the subcontractor arena and rising market prices – by increasingly adding to its own workforce, in particular by building up its own assembly capacities. That mitigates dependency on outside service providers and the risk of rising market prices. At the same time, the use of qualified in-house staff reduces potential quality risks and risks in the area of subcontractor management.

It is also necessary to ensure that the technical specifications for the acquired projects can be handled and the projects can be completed in time and in the agreed quality. That is influenced by many factors, such as cooperation with suppliers and partners or the availability and qualifications of employees. euromicron counters possible risks from that with a clearly defined approval process before offers are submitted or orders accepted. This process evaluates risk factors such as a project's technical complexity, the availability of internal or outside personnel to carry out the project, or project costing. Only then is a decision taken on whether to accept a project on the basis of the project's size and risk structure and subject to the defined responsibilities for approving projects.

Finances and liquidity

The Group's focus on Germany and the Euro zone minimizes risks relating to the exchange rate between the US dollar and Euro. Goods paid for in US dollars are purchased on the basis of short-term, foreign currency-based sales lists, which means that the currency risk can be controlled. Other currencies have as good as no relevance to the euromicron Group.

A further significant financial risk at the euromicron Group is the earnings strength of its companies. Since the Group companies are part of the centrally managed cash pool of euromicron AG, it is necessary to ensure that there are no risks to financing of them through the cash pool. This is achieved by permanent and standardized finance management and reporting that constantly monitors and assesses the Group companies' activities and assigns measures to them, which is why the likelihood of this risk occurring is assessed as being low.

In fiscal 2018, the euromicron Group had sufficient funds to finance its operational business. The existing financing agreement runs until March 31, 2021. The agreement specifies that the company must fulfill specific key ratios (covenants), which must be tested quarterly starting from from June 30, 2018. They include the gearing ratio and key indicators relating to earnings and liquidity. In addition, the agreement specifies contractually stipulated repayments of €2.5 million effective March 31, 2019, and €25.0 million effective January 31, 2020. The lenders also have an extraordinary right to terminate the agreement if 30% or more of the shares and/or voting rights are taken over.

In addition to its policy of cash-oriented corporate governance, euromicron aims to reduce the debt it incurred as a result of the past "buy and build" strategy. €25.0 million is to be repaid in a first step by the end of January 2020. The company has various repayment options available to it and the Executive Board initiated the process for validating them in 2018. They include measures to obtain liquidity on the capital market, as well as divestment measures involving the sale of non-strategic assets. Moreover, the company is holding discussions with investors and financial institutions about replacing or refinancing the current financing structure. Finally, there is the option of agreeing an extension to the special repayment II with the financiers. euromicron has engaged expert consultants to support it in all the measures. In view of the measures and planning that have been initiated, the Executive Board believes that reduction of debt by the above-described extent by January 2020 is ensured as far as can be seen at present.

In summary, the Executive Board is of the view that it is highly likely the company will continue as a going concern as a result of these various, realistic options and does not see any significant uncertainty as regards the planned repayment.

Risks from pending legal disputes and tax risks are also subsumed under the category "finances and liquidity".

- euromicron AG is taking legal action before the Frankfurt/Main District Court against a former member of the Executive Board to obtain repayment of bonuses totaling around €0.3 million paid for the fiscal years 2012 and 2013 and for damages of around €4.2 million due to breaches of duty in the preparation of annual financial statements and interim reports. The legal action is pursuant to accounting errors in the IFRS consolidated financial statements for fiscal years 2012 and 2013 identified by the German Financial Reporting Enforcement Panel (FREP). They resulted in inflated key financial ratios being reported, on the basis of which excessively high bonuses were paid. In addition, the company incurred damage of €4.2 million, in particular from payment of a dividend for which there were actually no corresponding net retained profits due to the accounting errors, as well as from costs for dealing with the aftermath of the accounting errors. The claim for repayment of the bonus (€0.3 million) was already capitalized in previous periods as part of correction of the accounting errors; however; the claimed damages due to breaches of duty (€4.2 million) have not been included on the balance sheet and so represent an opportunity. The Executive Board member in question disputes the claims and the validity of his dismissal and has brought a cross-action claiming compensation of €1.6 million for unfair dismissal. Based on the assessment of external lawyers, who consider the dismissal to be effective and so the claims of the former Executive Board member to be unjustified, this matter has not been carried in the balance sheet to date. The possible risk of the claims being payable is assessed as low.

- euromicron AG conducted securities lending transactions with a bank beyond the dividend record date in the years 2010 to 2012. The tax audit for the years 2010 to 2012 came to the conclusion that euromicron AG was not the economic owner of the shares in question at the respective dividend record date and so refused to credit the capital gains taxes withheld on the dividends. The assessing tax office then issued euromicron AG with amended corporation income tax assessment notices for the years 2010 to 2012, demanding repayment of credited amounts totaling approximately €5.8 million (plus interest). euromicron AG appealed these assessment notices in due time and form; levying of the amounts was suspended. Moreover, it applied for crediting of the amounts for reasons of equity and requested the bank involved to apply to its tax office alternatively for the amounts to be credited to it. If the tax office credits the bank involved with the paid-over capital gains tax, the bank has given a written pledge to pass on said amounts to euromicron AG. Alongside that, legal action was taken against the bank involved in August 2017, among other things to claim reimbursement of the excess compensation payments made as part of the securities lending transactions to the amount of the above-stated amounts of capital gains tax. The value in dispute is €5.8 million. The suit was dismissed by the court of first instance, Frankfurt/Main District Court, with its ruling dated November 23, 2018. euromicron AG has appealed the ruling before Frankfurt/Main Higher Regional Court. The appeal proceedings are at an early stage. There have not been any court hearings or hearing of evidence so far. Moreover, a third party notice was filed against the former Executive Board members in January 2018, since they are responsible for the securities lending transactions in the years 2010–2012. If neither the fiscal proceedings nor the civil case end in success for euromicron, it intends to seek recourse against the company's former Executive Board members on the basis of the third-party notice. Any such claims against the former Executive Board members are covered by the directors' and officers' (D&O) policy. All in all, the company's Executive Board does not therefore expect a negative impact on the Group's liquidity as a result of this risk.

Procurement and production

As a producer, service provider and operator of IoT and Smart Industry solutions, there are procurement risks as regards the supply of raw materials and in the supply of complete technical components. We counter these risks with organizational and contractual measures, as well as measures relating to purchasing strategy. Our procurement management delivers the basis for qualified consulting in all portfolio groups. By pooling this expertise, we ensure that our customers and own companies benefit from the very best procurement channels and optimum terms and conditions. That enables us to leverage synergies to the full, yet also minimize risks at the euromicron Group and internal process costs. The market success of our products goes hand in hand with the previously described technology leadership. Constant orientation toward customers' technological needs reduces the risk of producing solutions that ignore market requirements, so this risk is assessed as being low.

Service and sales

In addition, the ethos of service is a key aspect in our business model. Leading technologies, customer proximity and total commitment to service help secure sales. Proximity to customers also means that tendencies and trends are identified and the solution portfolio expanded in good time. Training and innovative service concepts underpin the product, training and sales strategy.

IT

A large part of our field of business is in digital technologies. In particular in times of growing cybercrime, risks to IT security must be addressed to a greater and greater extent. It is vital for data, networks and systems to be protected and reliable. We counter the higher risk by means of constant monitoring, the use of protective systems, and regular training and further education. Apart from planned manipulative interference in networks, it is also necessary to take into account technical faults, which we counter by systematic protection, backup and modern data structures. The risk is regarded as low all in all.

Corporate

The loss of qualified personnel is a key risk at a technology group with a medium-sized character like euromicron, in particular in project business, which is highly reliant on the existing staff. That is why the Group offers its employees regular, systematic further qualifications to reflect needs. That enables employees to assume more responsibility in their departments and demanding, varied tasks in their function. euromicron believes that professional and personal further development is a means of enhancing employee loyalty and key to a successful HR policy. As in the previous year, the employee loyalty program formulated by the Executive Board and HR was also implemented throughout the Group in fiscal 2018. Nevertheless, there is still the risk of not having adequately qualified personnel or staff being available.

Compliance

For the Executive Board of euromicron AG, corporate governance based on integrity means morally and legally responsible conduct, in particular toward executives, employees and all business partners. These maxims are actively practiced by the Executive Board, Supervisory Board and employees and have been incorporated in the company's Code of Conduct. This serves as the basis for creating a consistent understanding of ethical conduct in the Group. The Code of Conduct can be viewed on the company's homepage at www.euromicron.de/downloads/mediathek/euromicron-code-of-conduct.pdf. In addition to the general guidelines for compliance in practice, the Executive Board – in coordination with the compliance officer of euromicron AG – selects each year a special area of focus so as to ensure adequately at all times that our individual divisions are able to cope with the changes that they are subject to. The aim of this is to address the changes in requirements from operational business and in the market environment. Our divisions are to be developed further on the basis of the created compliance structure with reference to the separately defined areas of focus.

Summary of the risk situation

The main risks were presented in accordance with the categories from the risk management system, with most attention paid to financing and project risks. The residual risk is calculable given the countermeasures that have been initiated, guidelines and constant controls.

With the exception of the legal risks presented in the section "Finances and liquidity", there are no other legal risks from pending legal proceedings above and beyond current business.

In summary: In the assessment of the Executive Board, the currently known risks will probably have no significant impact on the net assets, financial position and results of operations of euromicron.

3.3 Opportunity report

Opportunities for the euromicron Group lie in the possibilities and potential of digitalization, which in some cases have already been leveraged in practice in the form of concrete projects. Examples are "digitized" points, trash cans "that also use their brain", "intelligent" hotel rooms or the use of self-propelled robots in production.

In order to create profitable growth and so increase the company's value sustainably, we intend to link our physical business even more strongly with solution business in promising new market segments – digital software-based services. Due to this combination and the strategic orientation toward the growth market of the Internet of Things, a market with prospects of large growth will open up for euromicron. New opportunities keep on arising due to the great dynamism of the market environment. The euromicron Group also boasts innovativeness in the field of network components "Made in Germany" and an international footprint.

The technological and security challenges facing enterprises wishing to capitalize on the advantages of increasing digitization represent a further opportunity for the euromicron Group. It is increasingly difficult for small and medium-sized customers in particular to achieve the necessary transformation solely with their internal resources or to recruit additional experts. The expertise and skills of digitalization providers such as euromicron are therefore highly sought by users, ideally in combination with specific industry know-how.

As an digitalization expert, euromicron is one of the few providers to be able to offer companies and public institutions overarching solutions from a single source. The euromicron Group has vertical know-how that allows it to create a perfectly fitting technical infrastructure for customers. To achieve that, euromicron combines the technical and economically most expedient modules from the fields of terminal devices and sensors, infrastructure, platforms, applications and services. euromicron's solutions enable users to increase the flexibility and efficiency of their business and production processes.

IoT solutions "Made by euromicron" have significant scaling potential. At the "Future Work Lab" of Fraunhofer IAO and IPA in Stuttgart, an SME-specific assembly workplace system already conveys a vision of work in the future. The heart of the system is the Smart Industry software from euromicron's subsidiary ELABO, which enables fully networked production environments to be created.

euromicron Deutschland is supporting AWS GmbH, a provider of waste water, water and other services and member of the GELSENWASSER Group, in modernizing its multi-site enterprise network and digitizing business-critical applications. euromicron's IT experts implemented tailored network and security infrastructures at the 28 locations – from creation of the concept and planning, installation and commissioning, to service and maintenance. The market will demand similar project requirements in the coming years.

We will implement largish video surveillance projects for Deutsche Bahn at many train stations in Germany in the coming years. The potential for video security at public places is virtually unlimited.

Digitization of the power distribution networks for controlling alternative energies and e-mobility is a challenge facing our customers. Here too, euromicron is implementing IoT solutions in order to master these challenges in a cost-effective and innovative way.

Apart from the strategic alignment, systematic leveraging of synergies between technology companies and system integrators represents further large potential for improving the euromicron Group's results in the medium term. In 2018, for example, euromicron's subsidiaries MICROSENS and euromicron Deutschland jointly implemented passive network infrastructures and accompanying IT services for central municipal properties of the city of Hanover – including in the listed New Town Hall and more than 150 schools. The video surveillance projects at the train stations are carried out by euromicron Deutschland using technology from MICROSENS. KORAMIS delivers security solutions for telent's critical infrastructure projects and ensures secure Smart Industry solutions for ELABO.

Pinpointed organizational changes will help improve marketing opportunities in the "Digital Buildings" arena in the future. Following MICROSENS' success in the field of automation with "Smart Lighting" and "Smart Office", it is merging building automation and IT fully with the division "Smart Building Solutions". The declared objective is to digitize automation processes in the entire building and achieve even closer cooperation with the Group's system integrators.

Further opportunities for euromicron lie in rigorously continuing the measures to reduce working capital and so the Group's tied-up capital.

There are also opportunities from further increasing the share of services in our solution portfolio in order to provide our customers with help tailored to their needs in the digital transformation of their business processes, strengthen their loyalty to euromicron and so increase our profitability lastingly.

3.4 Forecast for fiscal year 2019

On the basis of the sales of €318 million in 2018, sales expectations for 2019 – allowing for the presented opportunities and risks – are in a range between €325 million and €345 million

We also assume an EBITDA margin of between 4.0% and 5.5% for 2019. The figure for it in 2019 is calculated without any adjustment for special costs and not including the changes to EBITDA as a result of the new standard IFRS 16 – "Leases".

The anticipated margin is impacted to a substantial extent by positive effects from the realignment of construction-related business and by investments in further expansion of innovation business in the target market of the Internet of Things.

Following a working capital ratio (defined as working capital relative to sales) of 9.0% in fiscal 2018, it is to kept below 10.0% by the end of 2019 through further intensification of working capital management.

We expect a continuous improvement in our profitability in the coming years. We assume that the EBITDA margin will rise by approximately one percentage point per annum in the following years, with the result that an EBITDA margin of more than 8.0% will be achieved in the medium term.

As part of our focus on strategic areas of innovation, we also continuously examine divestments and acquisitions and seize the chance to make them if good opportunities arise. The forecast is based on the Group's current structure and so may need to be adjusted if divestments or acquisitions are made.

This forecast is based on the assumption of a positive economic development in the Federal Republic of Germany and in the general conditions in the IT/ICT industry in 2019, as presented in section 2.1 "General economic and industry-specific conditions". Nevertheless, the actual results may deviate significantly from the expectations and forecasts if one of the above, or other, uncertainties arise or the assumptions on which the statements were based should prove to be inaccurate.

4 Internal control and risk management system in relation to the consolidated accounting process

Legal background and definition of an internal accounting control and risk management system (ICS/RMS)

Stock corporations as defined by Section 264d HGB (German Commercial Code) are obliged pursuant to Section 315 (4) of that code to present the salient features of the ICS/RMS in relation to the consolidated accounting process in the group management report. The ICS/RMS comprises all principles, procedures and measures to ensure effective, cost-efficient and proper consolidated accounting and compliance with the relevant financial reporting regulations. It is integrated in the risk management system of the overall Group, which is described in detail in section 3.2 "Risk report and salient features of the risk management system".

Fundamental regulatory and control activities to ensure proper and reliable consolidated accounting

The measures in the ICS at euromicron AG and the euromicron Group are geared to proper and reliable consolidated accounting and ensure that business transactions are recorded fully, promptly and in compliance with statutory provisions. They also ensure that stocktakes are carried out properly and assets and liabilities are carried, measured and reported accurately in the consolidated financial statements. The regulatory activities also ensure that reliable and transparent evidence relating to business transactions is available in the form of accounting documents.

The concrete risks to which the euromicron Group is exposed in terms of assets, liabilities and strategic alignment are mainly in changes in the market situation, financing situation and interest rates. To minimize them, the basic elements of the business and financial policy are defined by the Executive Board and monitored by the Supervisory Board. In turn, Finance and Accounting, Controlling and Taxes are responsible for operationally implementing the financial policy and constant risk management.

With the increase in the workforce at the corporate units of euromicron AG, especially in Group Accounting and Group Controlling, Taxes, Working Capital Management, Internal Auditing and Compliance, the planned target structure has been implemented , resulting in an improvement in the internal accounting control system. In addition, extensive guidelines are drawn up continuously, updated and implemented throughout the Group so that processes, the design of the ICS and specific accounting matters are documented and governed consistently throughout the Group. In addition, the structures and processes in system house business were further optimized to harmonize and standardize implementation management and project controlling at the project companies and to integrate project controlling more deeply in Group reporting.

In order to permit selective analysis of deviations between actual and planned figures and to enable swift and effective countermeasures to be taken in response to deviations from planning, the organizational structure of Group Controlling is geared toward ensuring direct assignment of staff from Group Controlling to the individual operating companies and so integration of these in process-related or accounting-specific matters at the subsidiaries in question. Reporting and the process for preparing the monthly financial statements have been standardized throughout the Group. Integrated income statement, balance sheet and liquidity planning is created and is the foundation for monthly analyses with regard to deriving monthly budget figures. The company uses an IT-aided planning tool for preparing the integrated Group planning and it is further adapted successively to the needs of the euromicron Group's planning process.

Process-integrated and process-independent control measures form the main elements of the ICS at the euromicron Group. Apart from manual process controls – such as the "four eyes principle" –, automated IT process checks are also a key part of the process-integrated controls. This ensures that Financial Accounting is informed promptly of the status of all documents, which significantly reduces the risk of matters not being completely or correctly reported in accounting. The separation of functions and the four eyes principle are prescribed in work instructions or have been implemented in some cases in the systems used. Strict compliance with these measures also reduces the possibility of acts of criminal intent.

The controls are carried out throughout the Group and their suitability and comprehensiveness are reviewed regularly on a test basis.

Regular training courses make sure that employees at Accounting are informed of changes to the law that may have an impact on preparation of the consolidated financial statements. In addition, the text of laws and commentaries on them are available to an adequate extent.

In fiscal 2018, euromicron AG's risk identification system complied with the measures to set up a suitable risk identification system specified by Section 91 (2) AktG (German Stock Corporation Law). The risk identification system is suitable for promptly detecting developments that might jeopardize the company's continued existence.

Other control bodies, such as the Supervisory Board and independent auditor, are integrated in the company's control environment with their process-independent auditing and monitoring activities. The suitability and effectiveness of the internal control system are also examined constantly by the work of the Internal Auditing department.

Specific accounting-related risks

A particular risk in relation to consolidated accounting is that the consolidated financial statements to be published contain errors that may have a significant influence on the Group's financial position, net assets and results of operations. This risk exists in reporting unusual or particularly complex business transactions or other business transactions that are not routine and so have a relatively high inherent risk. We refer you in this regard to the comments in section 3.2 "Risk report and salient features of the risk management system".

Other aspects

In preparation of the consolidated financial statements, Accounting is also dependent in part on data and information from other organizational units of the euromicron Group. Of particular importance in examining the intrinsic value of goodwill and other assets is the budgeting prepared in agreement with the

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Controlling unit of euromicron AG and approved by its Executive Board and Supervisory Board. The Treasury unit provides the data required for presenting factoring in the balance sheet, for example. The data, which is provided by other organizational units, is subjected to a plausibility check in Accounting before being further processed as part of preparation of the consolidated financial statements.

At the euromicron Group, the segments are assessed among other things by their achievement of earnings- or cash flow-based targets. The course of business is assessed during the year with reference to various key indicators, as well as liquidity, profitability and comparison with budgeting. In the course of a fiscal year, three calculations on expectations with forecasts for the end of the year are conducted. However, far more criteria than pure key indicators are required as a basis for investment and business decisions in fast-moving technology markets and these are obtained through permanent monitoring and reviews. The company's management also bases its decisions on analyses by the specialists and persons responsible who are involved in the process and have extensive market, product and sector know-how. A wide range of different evaluation criteria are used, tailored to the specific case. The companies are accompanied permanently by investment controlling by euromicron AG; deviations are identified and countermeasures initiated immediately.

5 Corporate governance declaration by the Group in accordance with Section 315d HGB (German Commercial Code)

The (Group) corporate governance declaration in accordance with Section 315d in conjunction with Section 289f HGB (German Commercial Code) can be found in the 2018 Corporate Governance Report; the latter is available at all times on the homepage of euromicron AG.
www.euromicron.de/en/investor-relations/corporate-governance-code-18

6 Separate non-financial report

euromicron AG has disclosed its activities in the field of sustainability in the Declaration of Conformity with the German Sustainability Code (DNK). In the declaration, we present information – in accordance with the Act Implementing the CSR Directive within the meaning of Sections 315b and 315c in conjunction with Sections 289c to 289e HGB (German Commercial Code) – on the Group's sustainability strategy and the action we take to promote sustainability as regards matters relating to the environment, employees and society, as well as respect for human rights and combating of corruption.

The Declaration of Conformity is available at all times on the homepage of euromicron AG.
www.euromicron.de/en/investor-relations/sustainability

7 Compensation Report

Salient features of the compensation system for Executive Board members

euromicron's future success depends on the company's ability to acquire, motivate and retain good personnel. The compensation system for euromicron AG's Executive Board is therefore oriented toward performance incentives for long-term corporate governance geared to sustainability.

The Executive Board members' compensation is also part of an end-to-end system for executives at the euromicron Group and is intended to reflect the size and strategic alignment of the company, its economic situation and future prospects and the personal performance of the board member in question.

The compensation should be competitive nationally and internationally and so offer incentives for committed and successful work. Overall responsibility for defining the compensation principles for the Group lies with the Supervisory Board, which also regularly reviews them.

Compensation of members of the Executive Board

The Executive Board of euromicron AG was composed of the following members in fiscal 2018:

- Ms. Bettina Meyer was Spokeswoman of the Executive Board throughout the whole of fiscal 2018.
- Mr. Jürgen Hansjosten was a further member of the Executive Board from January 1, 2018, to April 30, 2018.
- On April 30, 2018, Mr. Jörn Trierweiler was appointed as successor to Mr. Jürgen Hansjosten as a further member of the Executive Board for the term of one year.

The compensation of Ms. Bettina Meyer and Mr. Jürgen Hansjosten in fiscal 2018 was defined by the contract of service that has been concluded with the two Executive Board members and has the same wording.

In the case of Mr. Jörn Trierweiler, however, what is termed a "third-party appointment" was agreed with VTR Germany GmbH, where Mr. Jörn Trierweiler is Managing Director. Since the underlying service agreement was concluded only for the term of one year (for the term he has been appointed as the Executive Board, namely from April 30, 2018, to April 30, 2019), it has differing arrangements to those under the contracts of service concluded with Ms. Bettina Meyer and Mr. Jürgen Hansjosten.

Compensation of Ms. Bettina Meyer and Mr. Jürgen Hansjosten under the contracts of service with Executive Board members

The total compensation of members of the Executive Board under the Executive Board contracts of service is based on Section 87 AktG (German Stock Corporation Law) and takes into account the Group's earnings targets. In fiscal 2018, it was made up of performance-unrelated components (salary, other remuneration) and performance-related components (earnings-related bonus and a variable component with a long-term incentive effect ("LTI")). The performance-unrelated component accounts for around 60.0%, the performance-related component for around 30.0% and the component with a long-term incentive effect for around 10.0% of the agreed total compensation, if the targets for the performance-related components are achieved in full.

euromicron AG's compensation strategy also envisages offering remuneration that is fair and transparent and takes the interests of shareholders into consideration.

The following criteria apply to the individual components of the Executive Board's compensation:

The performance-unrelated compensation is paid as a monthly salary, along with non-cash compensation. The two Executive Board members each received identical fixed compensation. The other remuneration relates to use of company cars, premiums for a group accident insurance policy and for a direct

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company insurance policy, and contributions to health and nursing care insurance. The Executive Board members pay tax on the respective benefit in money's worth of these non-cash benefits.

The company maintains an insurance policy for board members of the euromicron Group, what is termed a directors' and officers' (D&O) policy. This insurance covers personal liability if claims for financial loss are made against Executive Board members as part of their work. In accordance with the applicable arrangement in the contracts of service with Executive Board members, a deductible of 10.0% of the damage up to at least one-and-a-half times the fixed annual compensation of the Executive Board member is provided for in accordance with statutory provisions (deductible within the meaning of Section 93 (2) Sentence 3 AktG (German Stock Corporation Law) in conjunction with Section 23 (1) EGAktG (Introductory Act to the German Stock Corporation Law)).

The variable, performance-related components of the compensation for Executive Board members are geared to the company's sustainable development and consist of the following, mutually independent components:

First, there is a performance-related bonus in the form of a variable cash payment which is geared to the achievement of quantitative (50%) and qualitative (50%) targets. A target agreement for the Executive Board contract of service for fiscal 2018 was concluded solely with Ms. Bettina Meyer. The quantitative targets for fiscal 2018 were linked to achievement of a specific consolidated EBITDA and a specific working capital for the Group. The individual personal targets for fiscal 2018 envisaged an improvement in transparency and reliability and compliance with covenants, rollout of Group-wide sales controlling, and an improvement in the personnel structure and quality of personnel at the Managing Director level. An upper limit (cap) avoids entitlement to an excessively high bonus in the event of highly positive developments.

Second, the system for Executive Board compensation includes variable components with a multi-year basis of assessment (LTI). For the contribution made to increases in the company's value, the Executive Board members can receive a long-term compensation component geared to the individually agreed targets.

The performance period originally covered the time from the start of the employment relationship (April 1, 2015) to December 31, 2017. Due to inclusion of the target of ensuring a going concern in preparation of the annual and consolidated financial statements for fiscal year 2017 by means of an appropriate financing structure, the performance period was extended by the Supervisory Board until when the annual and consolidated financial statements are prepared in March 2018. For the period from January 1, 2018, to December 31, 2020, the annual LTI component is also linked to the achievement of interim financial targets ("milestones") to a proportion of 60% and to the company's share price performance to a proportion of 40%.

The entitlement to payment of the LTI becomes due ten business days after approval of the consolidated financial statements for fiscal year 2018; the 2018 consolidated financial statements were approved in April 2019. Payments on account for the LTI are made annually to an amount of 66% of the bonus calculated for the respective fiscal year and are due ten business days after approval of the consolidated financial statements for the fiscal year in question.

The payments on account are offset with the respective amount to be granted for the entire performance period in accordance with the degree to which the targets are achieved. If the total for the payments on account is larger than the amount to be granted for the entire performance period, the difference is immediately reimbursed by the member of the Executive Board.

It was stipulated under the two Executive Board contracts that they would both end effective March 31, 2020 (please refer to the section "Other benefits in the event of premature departure" as regards the premature termination of the Executive Board contract with Mr. Jürgen Hansjosten by mutual consent).

Under their respective Executive Board contract of employment, Ms. Bettina Meyer and Mr. Jürgen Hansjosten received the following compensation for their work in fiscal 2018:

The total compensation for all members of the Executive Board was €633.8 thousand. The performance-unrelated, fixed basic compensation accounted for €373.7 thousand (including other non-cash compensation of €7.0 thousand), the variable, performance-related compensation for €68.7 thousand, and the components with a long-term incentive effect €191.4 thousand.

The following amounts were paid to Ms. Bettina Meyer and Mr. Jürgen Hansjosten:

- Bettina Meyer: €445.1 thousand (performance-unrelated compensation €280.7 thousand, including €5.7 thousand in other remuneration, performance-related compensation €68.7 thousand and €95.7 thousand from the variable component with a long-term incentive effect)
- Jürgen Hansjosten: €188.7 thousand (performance-unrelated compensation €93.0 thousand, including €1.3 thousand in other remuneration, and €95.7 thousand from the variable component with a long-term incentive effect)

On the basis of the above-presented regulations, Ms. Bettina Meyer and Mr. Jürgen Hansjosten were granted the following interest-free advances on the LTI component in the form of payments on account in the years 2016 and 2017.

- Bettina Meyer: €57.9 thousand
- Jürgen Hansjosten: €57.9 thousand

The payments on account were offset in 2018 with the amount to be granted for the entire performance period in accordance with the degree to which the targets were achieved. The difference was paid out in April 2018 and was as follows for Ms. Bettina Meyer and Mr. Jürgen Hansjosten:

- Bettina Meyer: €37.8 thousand
- Jürgen Hansjosten: €37.8 thousand

No loans were granted to the members of the Executive Board in the year under review.

In fiscal 2018, the members of the Executive Board did not receive any benefits from third parties that had been promised or granted in relation to their work as board members. Activities in or for subsidiaries are not remunerated separately.

Compensation of Mr. Jörn Trierweiler under the contract of service concluded with VTR Germany GmbH

Before being appointed to the Executive Board, Mr. Jörn Trierweiler was already working as CRO for the company. The contract of service governing his work as CRO was suspended for the length of Mr. Jörn Trierweiler's appointment to the Executive Board. The contract of service that was concluded between euromicron AG and VTR Germany GmbH and that governs Mr. Jörn Trierweiler's activity on the Executive Board is – in accordance with the period of time for which he has been appointed a member of the Executive Board – limited to one year and so contains a number of special arrangements compared to the other Executive Board contracts of employment at euromicron AG.

The overall compensation of VTR Germany GmbH for the obligation it has undertaken toward euromicron AG to provide the services of Managing Director of VTR Germany GmbH, Mr. Jörn Trierweiler, in discharging all his tasks as a member of the Executive Board is composed of a performance-unrelated component (compensation on an hourly basis; other benefits) and a performance-related component (variable compensation). The compensation emulates the compensation that had been contractually agreed previously for Mr. Jörn Trierweiler's work as CRO.

The performance-unrelated component is a net payment for each hour Mr. Jörn Trierweiler works in discharging his activities for the Executive Board. VTR Germany GmbH invoices the compensation along with a record of the hours he has worked. The compensation is paid after the record of hours worked has been examined and approved by the Supervisory Board. The other benefits relate to the assumption of Mr. Jörn Trierweiler's rent and reimbursement of his travel expenses.

The company has also taken out a directors' and officers' (D&O) policy in favor of Mr. Jörn Trierweiler. In accordance with the arrangements under his contract of service, a deductible of 10.0% of the damage up to at least one-and-a-half times the fixed annual compensation of the Executive Board member is provided for under the policy.

The variable compensation is based on a supplemental agreement concluded between VTR Germany GmbH and euromicron AG. The quantitative targets for fiscal 2018 were linked to achievement of a specific consolidated EBITDA and a specific working capital for the Group.

The individual personal targets for fiscal 2018 envisaged an improvement in transparency and reliability and compliance with covenants, realignment of the subsidiary euromicron Deutschland GmbH, and presentation of an IT strategy and a plan for its implementation. An upper limit (cap) avoids entitlement to an excessively high bonus in the event of highly positive developments.

The total compensation paid to VTR Germany GmbH for making Mr. Jörn Trierweiler available to discharge duties on the Executive Board of euromicron AG in fiscal 2018 was €322.1 thousand. The performance-unrelated compensation accounted for €278.9 thousand, the variable, performance-related compensation component for €28.0 thousand, and the reimbursement of travel expenses and rent for €15.2 thousand.

Other benefits in the event of premature departure

If the appointment of an Executive Board member is terminated prematurely at the instigation of the company, without the company having the right to revoke the appointment for cause or terminate the contract of employment without notice, the contract of employment with the Executive Board member still effective for the remainder of the term can be rescinded by mutual consent. In practice, a severance payment is generally made in exchange for rescission of the contract in this way. The severance payment is defined at the equitable discretion of the Supervisory Board.

Mr. Jürgen Hansjosten departed from euromicron AG's Executive Board effective April 30, 2018. Under a severance and discharge agreement, severance pay of €200 thousand gross was agreed as compensation for the remuneration and benefits he would lose due to premature termination of his contract of service. The severance payment was made to him at the end of May 2018. In accordance with the contractual agreement, Mr. Jürgen Hansjosten was to pay tax on the severance payment.

Salient features of the compensation system for the Supervisory Board

The compensation of members of the Supervisory Board is governed by the Articles of Association of euromicron AG. Apart from being reimbursed for their outlays, the members of the Supervisory Board receive a fixed annual remuneration of €30 thousand. The Chairwoman of the Supervisory Board receives double and her deputy one-and-a-half times the fixed remuneration. The overall compensation for the Supervisory Board for 2018 in accordance with the Articles of Association was thus €135 thousand, which is broken down as follows:

- Evelyne Freitag: €60 thousand
- Klaus Peter Frohmüller: €27 thousand (since May 29, 2018)
- Dr. Martina H. Sanfleber: €18 thousand (since June 5, 2018)
- Rolf Unterberger: €18 thousand (until May 22, 2018)
- Dr. Alexander Kirsch: €12 thousand (until May 29, 2018)

In its own interests, the company maintains a directors' and officers' (D&O) insurance policy that also covers the members of the Supervisory Board. Its deductible is 10.0%.

The members of the Supervisory Board did not receive any further payments for services provided in the year under review.

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a) The subscribed capital of euromicron AG on the balance sheet date comprises 7,176,398 no-par value registered shares.
b) The company's Executive Board is not aware of restrictions on voting rights or transfer of shares, even if they may be defined under agreements between shareholders.
c) There are no direct or indirect capital stakes exceeding 10.0% of the voting rights, where the disclosures do not have to be made in the notes on the consolidated financial statements.
d) There are no holders of shares with special rights that confer controlling powers.
e) The Executive Board is appointed and removed by the Supervisory Board in accordance with the Articles of Association in compliance with Section 84 AktG (German Stock Corporation Law). Amendments to the Articles of Association require the consent of the General Meeting.
f) Powers of the Executive Board to issue or buy back shares:

Authorized capital
The General Meeting on June 13, 2018, adopted a resolution to create new authorized capital totaling €7,339,020.00. The Executive Board is thereby authorized, with the consent of the Supervisory Board, to increase the capital stock of the Company until June 12, 2023, by up to €7,339,020 through the issue of up to 2,870,558 registered shares in exchange for cash and/or non-cash contributions (authorized capital 2018). The authorization can be exercised once or more times in partial amounts. In accordance with the Articles of Association, there is the possibility, under specific preconditions, to exclude the statutory shareholders' subscription right.

Contingent capital
The General Meeting on June 13, 2018, adopted a resolution to create new contingent capital totaling €7,339,020.00. As a result, the capital stock is increased conditionally by up to €7,339,020.00 through the issue of up to 2,870,558 registered shares (contingent capital 2018).

The contingent capital increase is to be used to grant option or conversion rights or service conversion obligations and to grant shares instead of cash payments to the holders of bonds which the company or its group companies issue in compliance with the authorization adopted by the General Meeting on June 13, 2018. The new shares shall be issued at the option or conversion price defined in compliance with the authorization adopted by the General Meeting on June 13, 2018.

The conditional capital increase shall be carried out only and insofar as the holders or creditors of bonds issued or guaranteed on the basis of the authorization adopted by the General Meeting on June 13, 2018, make use of their option or conversion rights, fulfill their conversion obligations or shares are granted to the holders or creditors of these bonds instead of cash payments and other forms of fulfillment to service them are not used. The new shares will participate in profits from the beginning of the fiscal year in which they are issued. The Executive Board is authorized to define the further details of the contingent capital increase with the consent of the Supervisory Board.

Treasury shares
At December 31, 2018, there is no authorization from the General Meeting for euromicron AG to acquire its own shares. As in the previous year, the company did not therefore hold any treasury shares at December 31, 2018.

g) There are no significant agreements by the company as defined by Section 315a (1) Nos. 8 and 9 of the German Commercial Code (HGB).

Frankfurt/Main, April 8, 2019

Bettina Meyer Spokeswoman of the Executive Board	Dr. Frank Schmitt Member of the Executive Board	Jörn Trierweiler Member of the Executive Board

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Balance sheet – Assets

of the euromicron Group as of December 31, 2018 (IFRS)

Balance sheet – Assets 014

	Note	Dec. 31, 2018	Dec. 31, 2017	Change
		€ thou.	€ thou.	€ thou.
Noncurrent assets				
Goodwill	(7)	110,629	110,629	0
Other intangible assets	(7)	15,879	16,557	–678
Property, plant and equipment	(7)	18,933	19,139	–206
Other financial assets	(7, 30)	159	232	–73
Other assets	(7)	1	4	–3
Deferred tax assets	(8)	2,758	255	2,503
Total noncurrent assets		**148,359**	**146,816**	**1,543**
Current assets				
Inventories	(9)	28,820	31,486	–2,666
Trade accounts receivable	(10, 30, 31)	11,937	8,994	2,943
Gross amount due from customers for contract work	(10)	N/A	52,518	–52,518
Contract assets	(10, 30, 31)	40,755	N/A	40,755
Claims for income tax refunds	(10)	430	928	–498
Other financial assets	(7, 10, 30)	4,738	3,898	840
Other assets	(10)	2,085	2,566	–481
Cash and cash equivalents	(11, 30)	6,553	4,954	1,599
Total current assets		**95,318**	**105,344**	**–10,026**
Total assets		**243,677**	**252,160**	**–8,483**

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Balance sheet – Equity and liabilities

of the euromicron Group as of December 31, 2018 (IFRS)

Balance sheet – Equity and liabilities 015

	Note	Dec. 31, 2018	Dec. 31, 2017	Change
		€ thou.	€ thou.	€ thou.
Equity				
Subscribed capital	(12)	18,348	18,348	0
Capital reserves	(12)	94,298	94,298	0
Currency translation difference	(12)	– 4	4	– 8
Consolidated retained earnings	(12)	– 47,228	– 34,708	– 12,520
Stockholders' equity		65,414	77,942	– 12,528
Non-controlling interests	(12)	793	599	194
Total equity		**66,207**	**78,541**	**– 12,334**
Noncurrent liabilities				
Provisions for pensions	(13)	1,369	1,424	– 55
Other provisions	(13)	1,653	1,751	– 98
Liabilities to banks	(14, 30)	38,958	19,993	18,965
Liabilities from finance leases	(14, 30)	790	1,143	– 353
Other financial liabilities	(14, 30)	0	610	– 610
Other liabilities	(14)	114	170	– 56
Deferred tax liabilities	(15)	2,724	5,598	– 2,874
Total noncurrent liabilities		**45,608**	**30,689**	**14,919**

Continuation of the balance sheet – Equity and liabilities, table 015 on P. 084

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Continuation of the balance sheet – Equity and liabilities, table 015

Balance sheet – Equity and liabilities

015

	Note	Dec. 31, 2018	Dec. 31, 2017	Change
		€ thou.	€ thou.	€ thou.
Current liabilities				
Other provisions	(13)	1,941	1,955	–14
Trade accounts payable	(14, 30)	48,631	46,996	1,635
Gross amount due to customers for contract work	(14)	N/A	2,014	–2,014
Contract liabilities	(14, 30)	4,209	N/A	4,209
Liabilities from current income taxes	(14)	1,165	1,385	–220
Liabilities to banks	(14, 30)	58,681	70,556	–11,875
Liabilities from finance leases	(14, 30)	363	521	–158
Other tax liabilities	(14)	3,595	4,777	–1,182
Personnel obligations	(14, 30)	9,727	9,795	–68
Other financial liabilities	(14, 30)	1,295	1,562	–267
Other liabilities	(14)	2,255	3,369	–1,114
Total current liabilities		**131,862**	**142,930**	**–11,068**
Total equity and liabilities		**243,677**	**252,160**	**–8,483**

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Income statement

of the euromicron Group for the period January 1 to December 31, 2018 (IFRS)

Income statement 016

	Note	2018	2017
		€ thou.	€ thou.
Sales	(16)	**318,012**	**332,908**
Inventory changes		–670	–612
Own work capitalized	(17)	3,362	3,389
Other operating income	(18)	1,779	2,190
Cost of materials	(19)	–165,112	–172,432
Personnel costs	(20)	–114,304	–112,551
Other operating expenses	(21)	–41,181	–43,389
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**1,886**	**9,503**
Depreciation/amortization	(22)	–9,636	–8,405
Earnings before interest and taxes (EBIT)		**–7,750**	**1,098**
Interest income	(23)	23	313
Interest expenses	(23)	–6,282	–4,943
Other financial income	(23)	0	200
Other financial expenses	(23)	–34	–219
Income before income taxes		**–14,043**	**–3,551**
Income taxes	(24)	2,896	45
Consolidated net loss for the year		**–11,147**	**–3,506**
Thereof for euromicron AG shareholders		–11,466	–3,769
Thereof for non-controlling interests	(25)	319	263
(Un)diluted earnings per share in €	(26)	**–1.60**	**–0.53**

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Statement of comprehensive income

of the euromicron Group for the period January 1 to December 31, 2018 (IFRS)

Statement of comprehensive income 017

	Note	2018	2017
		€ thou.	€ thou.
Consolidated net loss for the year		**–11,147**	**–3,506**
Items to be subsequently recognized in profit or loss			
Currency translation differences	(12)	–8	9
Items not to be subsequently recognized in profit or loss			
Revaluation effects from pensions	(13)	–311	–201
Other comprehensive income (net)		**–319**	**–192**
Total profit/loss		**–11,466**	**–3,698**
Thereof for euromicron AG shareholders		–11,785	–3,961
Thereof for non-controlling interests		319	263

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Statement of changes in equity

of the euromicron Group as of December 31, 2018 (IFRS)

Statement of changes in equity 018

	Note	Subscribed capital	Capital reserves	Consolidated retained earnings	Currency translation difference	Equity attributable to the shareholders of euromicron AG	Non-controlling interests	Total equity
		€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
December 31, 2016		**18,348**	**94,298**	**–30,743**	**–5**	**81,898**	**461**	**82,359**
Consolidated net loss for 2017		**0**	**0**	**–3,769**	**0**	**–3,769**	**263**	**–3,506**
Other comprehensive income								
Currency translation differences	(12)	0	0	0	9	9	0	9
Revaluation effects from pensions	(13)	0	0	–201	0	–201	0	–201
		0	**0**	**–201**	**9**	**–192**	**0**	**–192**
Total profit/loss		**0**	**0**	**–3,970**	**9**	**–3,961**	**263**	**–3,698**
Transactions with owners								
Transfer of the pro-rata claim for compensation of losses on the part of minority interests to "Other assets"	(12)	0	0	5	0	5	0	5
Distributions to/drawings by minority interests	(12)	0	0	0	0	0	–125	–125
		0	**0**	**5**	**0**	**5**	**–125**	**–120**
December 31, 2017		**18,348**	**94,298**	**–34,708**	**4**	**77,942**	**599**	**78,541**

Continuation of the statement of changes in equity, table 018 on P. 088

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Continuation of the statement of changes in equity, table 018

Statement of changes in equity

018

	Note	Subscribed capital	Capital reserves	Consolidated retained earnings	Currency translation difference	Equity attributable to the shareholders of euromicron AG	Non-controlling interests	Total equity
		€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
December 31, 2017		**18,348**	**94,298**	**–34,708**	**4**	**77,942**	**599**	**78,541**
Adjustments from first-time application of IFRS 9 and IFRS 15 in acc. with IAS 8		0	0	–739	0	–739	0	–739
January 1, 2018 (adjusted)		**18,348**	**94,298**	**–35,447**	**4**	**77,203**	**599**	**77,802**
Consolidated net loss for 2018		**0**	**0**	**–11,466**	**0**	**–11,466**	**319**	**–11,147**
Other comprehensive income								
Currency translation differences	(12)	0	0	0	–8	–8	0	–8
Revaluation effects from pensions	(13)	0	0	–311	0	–311	0	–311
		0	**0**	**–311**	**–8**	**–319**	**0**	**–319**
Total profit/loss		**0**	**0**	**–11,777**	**–8**	**–11,785**	**319**	**–11,466**
Transactions with owners								
Correction to the pro-rata claim for compensation of losses on the part of minority interests recognized in the previous year	(12)	0	0	–4	0	–4	0	–4
Distributions to/drawings by minority interests	(12)	0	0	0	0	0	–125	–125
		0	**0**	**–4**	**0**	**–4**	**–125**	**–129**
December 31, 2018		**18,348**	**94,298**	**–47,228**	**–4**	**65,414**	**793**	**66,207**

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Statement of cash flows

of the euromicron Group for the period January 1 to December 31, 2018 (IFRS)

Statement of cash flows 019

	Note	2018	2017
		€ thou.	€ thou.
Income before income taxes	(23)	– 14,043	– 3,551
Net interest income/loss and other financial expenses	(23)	6,293	4,649
Depreciation and amortization of fixed assets	(23)	9,636	8,405
Reversal of write-downs of fixed assets	(23)	0	0
Disposal of assets, net	(23)	– 16	– 51
Non-cash deconsolidation effects	(23)	0	70
Depreciation/amortization of other noncurrent and current assets	(23)	0	238
Allowances for inventories and doubtful accounts	(23)	553	770
Change in provisions	(23)	– 141	540
Changes in current and noncurrent assets and liabilities:			
– Inventories	(23)	2,127	– 3,764
– Trade accounts receivable and contract assets (previous year: gross amount due from customers for contract work)	(23)	7,217	– 2,408
– Trade accounts payable and contract liabilities (previous year: gross amount due to customers for contract work)	(23)	1,629	3,299
– Other operating assets	(23)	– 810	1,493
– Other operating liabilities	(23)	– 1,575	– 4,377
– Income tax paid	(23)	– 2,483	– 2,870
– Income tax received	(23)	726	832
– Interest paid	(23)	– 5,975	– 4,960
– Interest received	(23)	208	125
Net cash provided by/used in operating activities *	(23)	**3,346**	**– 1,560**

Continuation of the statement of cash flows, table 019 on P. 090

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Continuation of the statement of cash flows, table 019

Statement of cash flows

019

	Note	2018	2017
		€ thou.	€ thou.
Net cash provided by/used in operating activities *	(23)	**3,346**	**– 1,560**
Proceeds from			
– Retirement/disposal of intangible assets	(23)	0	0
– Retirement/disposal of property, plant and equipment	(23)	70	68
Payments for			
– the purchase of intangible fixed assets	(23)	– 3,737	– 4,410
– the purchase of tangible fixed assets	(23)	– 3,636	– 6,380
– the acquisition of subsidiaries and other business units, less assumed cash and cash equivalents	(23)	– 500	– 2,048
– the disposal of subsidiaries and other business units, including transferred cash and cash equivalents	(23)	0	– 701
Net cash used in investing activities	(23)	**– 7,803**	**– 13,471**
Proceeds from raising of financial loans	(23)	12,590	18,720
Cash repayments of financial loans	(23)	– 5,898	– 4,775
Cash repayments of liabilities from finance leases	(23)	– 511	– 525
Distributions to/withdrawals by non-controlling interests and profit shares of minority interests	(23)	– 125	– 279
Net cash provided by financing activities	(23)	**6,056**	**13,141**
Net change in cash funds	(23)	1,599	– 1,890
Cash funds at start of period	(23)	4,954	6,844
Cash funds at end of period	(23)	**6,553**	**4,954**
* Adjusted for factoring effects:	(23)		
Net cash provided by operating activities:	(23)	**7,530**	**386**

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General disclosures

1. Description of business activities

euromicron AG (hereinafter referred to as the "company") is a registered stock corporation under German law whose shares are traded on the stock market and that has its registered offices in Frankfurt/Main, Germany (commercial register number HRB 45562). The euromicron Group unites medium-sized high-tech companies that operate in particular in the target markets of "Digital Buildings", "Smart Industry" and "Critical Infrastructures". As German specialists for digital infrastructures, the companies in the euromicron Group enable their customers to network business and production processes and so successfully move to a digital future. From design and implementation, operation, to intelligent services – euromicron provides its customers with tailor-made solutions for technologies, system integration and smart services and creates the IT, network and security infrastructures required for them. As a result, euromicron lets its customers migrate existing infrastructures gradually to the digital age. Thanks to this expertise, the euromicron Group helps its customers increase their own company's agility and efficiency, as well as develop new business models that lay the foundation for commercial success down the road.

The Executive Board gave its consent to publication of these consolidated financial statements on April 8, 2019. They were approved by the Supervisory Board at its meeting on April 10, 2019.

2. Summary of the main accounting policies

2.1 Accounting principles

euromicron AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as are applicable in the European Union, and the supplementary regulations pursuant to Section 315e (1) of the German Commercial Code (HGB), in the valid version at December 31, 2018. All the mandatory standards at the balance sheet date were applied.

Rounding effects may mean that individual figures might not add up exactly to the specified total.

(a) Effects of new standards and interpretations or amendments to them on the consolidated financial statements

The table below presents the new and amended standards and interpretations that have been adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Standards Interpretations Committee (IFRS-IC) and are mandatory for the first time in fiscal 2018:

Table 020

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Standards to be applied for the first time in the fiscal year 020

	Standard / interpretation	Mandatory application in the EU	Adoption by the EU Commission
IAS 40	Investment Property: Transfers of Investment Property (amendment)	January 1, 2018	Yes
IFRS 2	Share-based Payment: Classification and Measurement of Share-based Payment Transactions (amendment)	January 1, 2018	Yes
IFRS 4	Insurance Contracts (amendment)	January 1, 2018	Yes
IFRS 9	Financial Instruments	January 1, 2018	Yes
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Yes
IFRS 15	Revenue from Contracts with Customers (clarifications)	January 1, 2018	Yes
IFRIC 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018	Yes
AIP	Annual improvements to the IFRSs, cycle 2014-2016	January 1, 2017 / January 1, 2018	Yes

Apart from the effects of IFRS 9 and IFRS 15 presented in the following, there were no significant effects on the consolidated financial statements.

IFRS 9 "Financial Instruments"

The IASB adopted the final version of IFRS 9 "Financial Instruments" on July 24, 2014. Adoption of IFRS 9 means that its previous versions (Classification and Measurement: Financial Assets and Liabilities; Hedge Accounting) and its predecessor standard IAS 39 – "Financial Instruments: Recognition and Measurement" are superseded.

When first carried, financial assets are to be categorized as measured at "fair value through profit or loss" or, respectively, at "fair value through other comprehensive income" or at "amortized cost".

There is the irrevocable possibility of applying a "fair value through other comprehensive income" option for equity instruments provided the instruments in question are not held for trading. Otherwise they are measured at "fair value through profit or loss".

The shares in the listed company Track Group Inc., Utah, U.S., carried by the euromicron Group under "Other financial assets" were assigned to the category "Available for sale" under IAS 39 and measured at fair value (carrying amount at December 31, 2018: €21 thousand; no measurement effects contained in OCI). According to IFRS 9, these are equity instruments and are assigned to the category "fair value through profit or loss" when the standard is applied for the first time; the "fair value through other comprehensive income" option is not applied.

The classification of debt instruments is dependent on the company's business model and the contractual terms of the financial asset. For example, financial assets whose business model is based on the collection of contractual cash flows ("Hold to collect" business model) and whose cash flows relate solely to repayments and interest on the unpaid principal must be assigned to the category "amortized cost". That is true of most of the euromicron Group's financial assets.

The regulations of IFRS 9 have an appreciable impact on trade accounts receivable, which the euromicron Group sells to a significant extent under a factoring agreement. As part of that, receivables from certain trade debtors are sold to a factoring company within defined factoring volumes. These receivables thus meet the requirements for the business model "collection of cash flows from sale" ("Sell" business model). The trade accounts receivable sold at the balance sheet date result in a partial disposal with booking of a low continuing involvement.

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If receivables tendered under the factoring agreement remain on the balance sheet at the reporting date (for example because the factoring volume of the Group company in question or the trade debtor is already used up), they must likewise be assigned to the "Sell" business model and so to the measurement category "fair value through profit or loss". Trade accounts receivable not sold or tendered under the factoring agreement must be assigned to the measurement category "amortized cost".

The classification of financial liabilities has not changed compared with IAS 39. Only the regulations in the event of a change to the own credit risk have changed for financial liabilities measured to date at "fair value through profit or loss". This change in value now has to be carried in the "Other comprehensive income". The changes to IFRS 9 do not have any impact on financial liabilities at the euromicron Group.

The new regulations in IFRS 9 on recognition of impairments are based on the premise of providing for anticipated losses (expected loss model), a change from the previous model of losses that had already occurred (incurred loss model). Unlike the incurred loss model, the expected loss model takes into account anticipated losses if there are no concrete loss indicators. Consequently, a risk provision for expected payment losses must now be formed in principle in accordance with IFRS 9.

In order to determine the extent of provisions for risks, there is a three-tier model under which in principle expected losses for twelve months are to be carried as of first-time recognition and, in the event of a significant deterioration in the credit risk, the anticipated total losses are to be recognized. An exception to the general impairment model is the simplified impairment model for trade receivables, lease receivables and contract assets in accordance with IFRS 15. Under the simplified impairment model, a risk provision must be carried for all instruments (regardless of the quality of the credit) to the amount of the anticipated losses over their remaining term.

Application of the expected loss model on trade accounts receivable and contract assets in accordance with IFRS 15 resulted upon first-time application of IFRS 9 in an increase in impairments of €153 thousand, which was recognized directly in equity and allocated to the consolidated retained earnings.

IFRS 9 contains regulations on hedge accounting that create a stronger connection between hedge accounting on the balance sheet and the risk management practiced as part of operational activities. There are no effects from the changes to hedge accounting, since the euromicron Group does not use hedge accounting.

In principle, first-time adoption of IFRS 9 must be retrospective; however, various simplification options are granted. No adjustment is made to the comparative figures for the previous year.

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The table below presents a reconciliation of the financial assets and liabilities from the measurement categories of IAS 39 with the measurement categories in accordance with IFRS 9 at December 31, 2017 / January 1, 2018 (before adjustments to recognition and measurement): Table 021

The table below presents a reconciliation of the financial assets by measurement categories at January 1, 2018: Table 022

Reconciliation of financial instruments by measurement categories at December 31, 2017 / January 1, 2018 021

	Measurement category acc. to IAS 39	Carrying amount	Measurement category acc. to IFRS 9	Carrying amount
		€ thou.		€ thou.
Assets				
Cash and cash equivalents	LaR [1]	4,954	AC [5]	4,954
Trade accounts receivable	LaR [1]	8,994	AC [5] FVPL [6]	7,797 1,197
Other financial assets	AfS [2] LaR [1] FVtPoL [3] IAS 17 N/A	55 3,609 3 162 301	FVPL [6] AC [5] FVPL [6] IAS 17 N/A*	55 3,609 3 162 301
Equity and liabilities				
Trade accounts payable	FLAC [4]	46,996	AC [5]	46,996
Liabilities to banks	FLAC [4]	90,549	AC [5]	90,549
Other financial liabilities	FLAC [4] FVtPoL [3]	1,494 678	AC [5] FVPL [6]	1,494 678
Financial personnel obligations	FLAC [4]	5,676	AC [6]	5,676
Liabilities from finance leases	IAS 17	1,664	IAS 17	1,664

[1] LaR = Loans and Receivables.
[2] AfS = Available for Sale.
[3] FVtPoL = At Fair Value through Profit or Loss.
[4] FLAC = Financial Liabilities Measured at Amortized Cost.
[5] AC = Amortized Cost.
[6] FVPL = At Fair Value through Profit or Loss.
* The continuing involvement carried in the other financial assets is not assigned to any of the listed categories in accordance with IAS 39 and IFRS 9, since separate measurement rules apply as part of the stipulations on retirement of financial assets.

Reconciliation of the financial assets by measurement categories [1] at January 1, 2018 022

	Financial assets			Total
	FVPL (FVtPoL 2017)	FVOCI (AfS 2017)	AC (LaR 2017)	
	€ thou.	€ thou.	€ thou.	€ thou.
Closing balance sheet value at December 31, 2017 (IAS 39)	3	55	17,557	17,615
Reclassification of receivables tendered as part of factoring from the measurement category "Loans and receivables" to the measurement category "Fair value through profit or loss"	1,197	0	–1,197	0
Reclassification of other financial assets (shares in Track Group Inc.) from the measurement category "Available for sale" to the measurement category "Fair value through profit or loss"	55	–55	0	0
Opening balance sheet value at January 1, 2018 (IFRS 9) before remeasurement effects	1,255	0	16,360	17,615
Remeasurement effects [2]	0	0	–99	–99
Opening balance sheet value at January 1, 2018 (IFRS 9)	1,255	0	16,261	17,516

[1] In deviation from the assets stated as LaR in the Annual Report at December 31, 2017, the reconciliation presented here does not include the gross amount due from customers for contract work (€52,518 thousand) and the continuing involvement carried in the other financial assets (€301 thousand), since these are not to be assigned to the category LaR. As regards the liabilities stated as FLAC in the Annual Report at December 31, 2017, the gross amount due to customers for contract work (€2,014 thousand) is not to be assigned to the category FLAC, since different measurement rules apply to it. These assets and liabilities likewise do not fall under the scope of IFRS 9 and so are not included in the disclosures in the notes on first-time application of IFRS 9.
[2] The adjustment from retrospective application of the expected loss model is carried under the remeasurement effects.

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There were no reconciliation items as regards financial liabilities.

The table below presents a reconciliation between the allowances at January 1, 2018, and their changes at December 31, 2018:
Table 023

Reconciliation of impairment 023

	Allowances for doubtful accounts in acc. with IAS 39 at Dec. 31, 2017	Remeasurement	Allowances for doubtful accounts in acc. with IFRS 9 at Jan. 1, 2018	Change in allowances for doubtful accounts in 2018	Allowances for doubtful accounts in acc. with IFRS 9 at Dec. 31, 2018
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Trade accounts receivable	2,387	99	2,486	–830	1,656
Contract assets	0	54	54	–18	36
Total	**2,387**	**153**	**2,540**	**–848**	**1,692**

The assets assigned to the category "Loans and receivables" under IAS 39 or to the category "Amortized cost" under IFRS 9 comprise trade accounts receivable, cash and cash equivalents and other financial assets. No allowances were carried for cash and cash equivalents and other financial assets for reasons of materiality. The contract assets are not assigned to any measurement category in accordance with IFRS 9.

IFRS 15 "Revenue from Contracts with Customers"
The IASB published the standard IFRS 15 "Revenue from Contracts with Customers" in May 2014. The standard provides a single, principles-based five-step model for determining and recognizing revenue that is to be applied to all contracts with customers and contains the core principle that revenue must be recognized at the time control over goods and services passes to the customer. In particular, it supersedes the standards IAS 11 and IAS 18 and the regulations in various interpretations.

As part of first-time application of IFRS 15, euromicron has used the modified retrospective method, i.e. any conversion effects were recognized cumulatively in the consolidated retained earnings at the start of the comparative period on January 1, 2018. euromicron made use of possible exemptions here. In this connection, contracts that began or were fulfilled before January 1, 2018, were not remeasured, in particular at January 1, 2018.

First-time application of IFRS 15 had the following significant impacts on the presentation of the consolidated financial statements:

- If one of the parties has fulfilled its contractual obligation, IFRS 15 stipulates that the company must carry the contract as a contract asset or contract liability in the balance sheet. A contract asset is the right to receive a consideration in exchange for goods or services transferred to a customer. A contract liability is the obligation to transfer goods or services to a customer for which the company has received (or is to receive) a consideration from the customer. The new items "Contract assets" and "Contract liabilities" have been included in the balance sheet for that purpose. As a result, the previous items "Gross amount due from customers for contract work" and "Gross amount due to customers for contract work" will be dropped from the balance sheet in the future.

- If euromicron fulfills its obligations under contracts with customers before the other party pays a consideration or the consideration becomes due, euromicron presents this contractual right (excluding all amounts carried as trade accounts receivable) as a contract asset.

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- As of fiscal 2018, due payments on account not carried in the balance sheet in previous periods until they have been paid are recognized under "Trade accounts receivable" as of the time they become due. The value carried under "Contract liabilities" is reduced to a corresponding amount.

- If a customer pays a consideration or if euromicron has an unconditional right to a specific consideration (i.e. a receivable) before goods are transferred to or a service is performed for the customer, euromicron must recognize the contract as a contract liability when the payment is made or becomes due (whichever is earlier). As a result, euromicron will no longer carry prepayments in future under the balance sheet item "Other liabilities", but instead under "Contract liabilities".

- As of fiscal 2018, due invoices for prepayments not carried in the balance sheet in previous periods until they have been paid are recognized under "Trade accounts receivable" as of the time they become due. The corresponding performance obligation is presented under the "Contract liabilities".

- Under the regulations in IAS 11.22 in conjunction with 11.34 and 11.36, an anticipated loss from construction contracts had to be recognized as an expense immediately. In accordance with IAS 37.69, an impairment loss on an asset first had to be recognized before a separate provision for an onerous contract was established. In accordance with IFRS 15.107, the impairment of a "contract asset" is assessed in accordance with the regulations of IFRS 9 as of fiscal year 2018. We refer in this regard to the section "IFRS 9 – Financial Instruments". That means there is no impairment of a "contract asset" from onerous contracts for as long as no default on contractually agreed payments is anticipated. Provisions for anticipated losses from onerous contracts which are not attributable to default on contractually agreed payments must be set up to the amount of the anticipated unavoidable costs in accordance with IAS 37.68. As a result, the contract assets and other provisions increased by €167 thousand at January 1, 2018.

There are also the following significant adjustments to measurements:

- In construction-related project business/system integration business, there were impacts on the recognition of effects from contract modifications (e.g. from supplements or claims) on the balance sheet. These relate in particular to their measurement, i.e. the amount at which they are to be included in the order total in order to determine the revenue recognized over time. IFRS 15 demands here a higher degree of certainty than was the case under the previous regulations of IAS 11. In accordance with IFRS 15.56, such a consideration may be included fully or partly in the transaction price only if it is highly likely that there is no significant cancellation as regards the recognized cumulated revenues as soon as the uncertainty in connection with the consideration no longer exists. The necessary adjustments resulted at January 1, 2018, in a reduction of € –759 thousand in "contract assets", which was recognized directly in equity and allocated to the consolidated retained earnings.

- In the remaining project business, revenue is recognized at a later point in time in individual areas – for construction contracts carried up to now using the percentage of completion method in accordance with IAS 11 –, since the requirements for revenue recognition over time in accordance with IFRS 15 are not fulfilled. This adjustment resulted at January 1, 2018, in a reduction in contract assets (€ –297 thousand) and a corresponding increase in work in progress (€157 thousand). The effect of that adjustment (€ –140 thousand) was presented as a reduction in the consolidated retained earnings.

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The following overview presents the effects of IFRS 15 on the relevant balance sheet items at January 1, 2018: Table 024

Adjustments from first-time application of IFRS 15 024

	Dec. 31, 2017 (before adjustment)	Change in presentation of construction contracts / contract assets	Change in recognition of due payments on account	Change in recognition of prepayments	Change in recognition of onerous contracts	Switch from PoC method to revenue recognition at a point in time	Other measurement adjustments	Jan 1, 2018 (after adjustment)
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Assets								
Inventories	31,486	0	0	0	0	157	0	31,643
Trade accounts receivable	8,994	0	1,424	24	0	0	0	10,442
Gross amount due from customers for contract work	52,518	–52,518	0	0	0	0	0	N/A
Contract assets	N/A	52,518	–1,424	0	167	–297	–759	50,205
Equity and liabilities								
Consolidated retained earnings	–34,708	0	0	0	0	–140	–759	–35,607
Other provisions	3,706	0	0	0	167	0	0	3,873
Gross amount due to customers for contract work	2,014	–2,014	0	0	0	0	0	N/A
Contract liabilities	N/A	2,014	0	1,033	0	0	0	3,047
Other liabilities	3,539	0	0	–1,009	**0**	**0**	**0**	2,530

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The table below presents a summary of the effects from first-time application of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on assets, liabilities and equity at January 1, 2018:

Tables 025 and 026

Adjustments from first-time application of IFRS 9 and IFRS 15 in acc. with IAS 8 — 025

		Adjustments from first-time application of			
	Dec. 31, 2017 (before adjustment)	IFRS 15 (excl. deferred tax effects)	IFRS 9 (excl. deferred tax effects)	Effects on deferred taxes	Jan. 1, 2018 (after adjustment)
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Assets					
Noncurrent and current assets					
Inventories	31,486	157	0	0	31,643
Trade accounts receivable	8,994	1,448	–99	0	10,343
Gross amount due from customers for contract work	52,518	–52,518	0	0	N/A
Contract assets	N/A	50,205	–54	0	50,151
Deferred tax assets	255	0	0	2	257
Other noncurrent and current assets	158,907	0	0	0	158,907
Total assets	**252,160**	**–708**	**–153**	**2**	**251,301**

Adjustments from first-time application of IFRS 9 and IFRS 15 in acc. with IAS 8 — 026

		Adjustments from first-time application of			
	Dec. 31, 2017 (before adjustment)	IFRS 15 (excl. deferred tax effects)	IFRS 9 (excl. deferred tax effects)	Effects on deferred taxes	Jan. 1, 2018 (after adjustment)
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Equity and liabilities					
Equity					
Consolidated retained earnings	–34,708	–899	–153	312	–35,448
Other equity (including non-controlling interests)	113,249	0	0	0	113,249
Total equity	**78,541**	**–899**	**–153**	**312**	**77,801**
Noncurrent and current liabilities					
Other provisions	3,706	167	0	0	3,873
Gross amount due to customers for contract work	2,014	–2,014	0	0	N/A
Contract liabilities	N/A	3,047	0	0	3,047
Deferred tax liabilities	5,598	0	0	–310	5,288
Other liabilities	3,539	–1,009	0	0	2,530
Other noncurrent and current liabilities	158,762	0	0	0	158,762
Total noncurrent and current liabilities	**173,619**	**191**	**0**	**–310**	**173,500**
Total equity and liabilities	**252,160**	**–708**	**–153**	**2**	**251,301**

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The tables below present a summary of the differences in recognition and measurement on the balance sheet and income statement at December 31, 2018, that would have resulted if the IFRS standards applicable at December 31, 2017 (in particular IAS 11 "Construction Contracts", IAS 18 "Revenue" and IAS 39 "Financial Instruments: Recognition and Measurement") would have had to still be applied in 2018: Tables 027, 028 and 029

Reconciliation of the adjustment effects from IFRS 9 and IFRS 15 at December 31, 2018 — 027

		Adjustments from first-time application of			
	Dec. 31, 2018 (before adjustment)	IFRS 15 (excl. deferred tax effects)	IFRS 9 (excl. deferred tax effects)	Effects on deferred taxes	Dec. 31, 2018 (after adjustment)
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Assets					
Noncurrent and current assets					
Inventories	28,751	69	0	0	28,820
Trade accounts receivable	11,464	581	– 108	0	11,937
Gross amount due from customers for contract work	41,374	– 41,374	0	0	N/A
Contract assets	N/A	40,790	– 35	0	40,755
Deferred tax assets	2,684	0	0	74	2,758
Other noncurrent and current assets	159,407	0	0	0	159,407
Total assets	**243,680**	**66**	**– 143**	**74**	**243,677**

Reconciliation of the adjustment effects from IFRS 9 and IFRS 15 at December 31, 2018 — 028

		Adjustments from first-time application of			
	Dec. 31, 2018 (before adjustment)	IFRS 15 (excl. deferred tax effects)	IFRS 9 (excl. deferred tax effects)	Effects on deferred taxes	Dec. 31, 2018 (after adjustment)
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Equity and liabilities					
Equity					
Consolidated retained earnings	– 46,857	– 383	– 143	154	– 47,228
Other equity (including non-controlling interests)	113,435	0	0	0	113,435
Total equity	**66,579**	**– 383**	**– 143**	**154**	**66,207**
Noncurrent and current liabilities					
Other provisions	3,192	402	0	0	3,594
Gross amount due to customers for contract work	1,763	– 1,763	0	0	N/A
Contract liabilities	N/A	4,209	0	0	4,209
Deferred tax liabilities	2,804	0	0	– 80	2,724
Other liabilities	4,768	– 2,399	0	0	2,369
Other noncurrent and current liabilities	164,574	0	0	0	164,574
Total noncurrent and current liabilities	**177,101**	**449**	**0**	**– 80**	**177,470**
Total equity and liabilities	**243,680**	**66**	**– 143**	**74**	**243,677**

Reconciliation of the adjustment effects from IFRS 9 and IFRS 15 at December 31, 2018 — 029

	Dec. 31, 2018 (before adjustment)	Adjustments from first-time application of IFRS 15 (excl. deferred tax effects)	IFRS 9 (excl. deferred tax effects)	Effects on deferred taxes	Dec. 31, 2018 (after adjustment)
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Sales	317,551	461	0	0	318,012
Inventory changes	–739	69	0	0	–670
Cost of materials	–165,098	–14	0	0	–165,112
Other operating income	1,769	0	10	0	1,779
Other expense and income items (incl. amortization/depreciation and the net financial result)	–168,052	0	0	0	–168,052
Income taxes	3,055	0	0	–159	2,896
Consolidated net loss for the period	**–11,514**	**516**	**10**	**–159**	**–11,147**
Thereof for euromicron AG shareholders	–11,832	516	9	–159	–11,466
Thereof for non-controlling interests	318	0	1	0	319
(Un)diluted earnings per share in €	**–1.65**	**0.07**	**0.00**	**–0.02**	**–1.60**

Effects on the cash flow

First-time application of IFRS 9 and IFRS 15 did not have any significant effects on the euromicron Group's cash flow. There are slight changes in recognition within the cash flow from operating activities.

(b) Standards, interpretations and amendments of published standards which do not yet have to be applied in 2018 and that were not used by the Group before they apply

The following new or changed accounting regulations of the IASB have recently been adopted. However, since their application is not yet mandatory or they have not yet been adopted by the European Union, they were not used in the consolidated financial statements as of December 31, 2018:

Table 030

Standards to be applied in future fiscal years — 030

	Standard / interpretation	Mandatory application in the EU	Adoption by the EU Commission
IAS 1	Presentation of Financial Statements: definition of material (amendment)	January 1, 2020	No
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors: definition of material (amendment)	January 1, 2020	No
IAS 19	Employee Benefits: Plan Amendment, Curtailment or Settlement (amendment)	January 1, 2019	Yes
IAS 28	Long-term Interests in Associates and Joint Ventures (amendment)	January 1, 2019	Yes
IFRS 16	Leases	January 1, 2019	Yes
IFRS 17	Insurance Contracts	January 1, 2021	No
IFRS 3	Business Combinations: Amendments to clarify the definition of a business	January 1, 2020	No
IFRS 9	Financial Instruments: Prepayment Features with Negative Compensation (amendment)	January 1, 2019	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	January 1, 2019	Yes
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	No
AIP	Annual improvements to the IFRSs, cycle 2015 – 2017	January 1, 2019	No

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Voluntary premature application of individual standards or interpretations to be applied in future, where permissible for the standard or interpretation in question – subject to any still outstanding endorsement –, is not envisaged by the euromicron Group.

Apart from the effects of IFRS 16 presented in the following, there are not expected to be any significant effects on the consolidated financial statements.

IFRS 16 "Leases"

On January 13, 2016, the IASB published its standard on future lease accounting "IFRS 16 – Leases". IFRS 16 thus replaces the previous regulations of IAS 17 "Leases" and related interpretations (IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases: Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease").

Under the new regulations, the lessee must recognize all leases in future in the balance sheet in the form of a right of use (right of use assets) and corresponding lease liability. They are always presented in the income statement as a financing transaction, i.e. the right of use must usually be amortized using the straight-line method and the lease liability amortized using the effective interest method.

Only leases with a total maximum term of twelve months and leases for low-value assets (IT equipment and operating and office equipment with a value when new of up to €5,000, if they are not closely linked to other assets) are exempted from being carried in the balance sheet. In these cases, the lessee can elect to recognize the assets in a similar way as for the previous operating lease under IAS 17 "Leases".

The new standard does not contain any major changes for lessors. The IASB has adopted the regulations of IAS 17 for lessors in the new standard almost without any changes. As a result, the lessor still classifies every lease from the aspect of risk and reward, both for the purpose of presenting it on the balance sheet and in earnings. As a result, there is no longer a mirror-image reflection between the lessor and lessee. In addition, the IASB has established the control principle familiar from IFRS 10 "Consolidated Financial Statements" and IFRS 15 "Revenue from Contracts with Customers" in IFRS 16 "Leases". Accordingly, a lease will exist in future if fulfillment of the contract depends on use of an identified asset and the contract also gives the customer the right to control use of that asset.

Further changes from previous regulations include in relation to sale and leaseback transactions, in which in a first step it is now necessary to assess where there is a sale in accordance with IFRS 15 "Revenue from Contracts with Customers", which did not have to be taken into account under IAS 17 "Leases". In addition, IFRS 16 contains amended regulations on the separation of lease and service components, accounting in the event of modification to existing contracts, and a significant expansion in disclosure obligations on the part of both the lessor and lessee.

IFRS 16 must be applied to fiscal years beginning on or after January 1, 2019. The euromicron Group intends to apply the new standard for the first time effective January 1, 2019, using the modified retrospective approach and recognize the cumulative effect from first-time application of IFRS 16 as an adjustment to the opening balance sheet value for the revenue reserves at January 1, 2019, without any retroactive adjustment to the comparative information for the year before its first-time application.

As regards the options and exemptions available under IFRS 16, the euromicron Group chooses the following approach:

- Rights of use are carried under the fixed assets.
- Lease obligations are recognized separately in the balance sheet.
- Use is made of the option whereby the recognition, measurement and carrying requirements of IFRS 16 do not have to be applied to short-term leases (total maximum term of twelve months) and to leases for which the underlying asset is of low-value.
- No inclusion of the direct costs initially incurred

The lease obligations mainly comprise rental agreements for buildings and vehicle leasing agreements. In the case of significant, short-term agreements relating to the rental of buildings, the terms of the agreements on which measurement is based were adjusted to reflect the Group's five-year planning horizon.

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In fiscal 2016, the euromicron Group initiated a Group-wide project to introduce IFRS 16 and had almost completed it by the end of 2018. As part of the project, a survey of the existing tenancy agreements and leases was initially conducted throughout the Group. The agreements are administered by means of a contract management system that has been implemented. This system supplies the foundation for calculating the rights of use to be recognized in accordance with IFRS 16; they essentially correspond to the amount of the lease obligations at the time of the switch. An IT-based leasing tool was rolled out to calculate and update these amounts.

First-time application of IFRS 16 effective January 1, 2019, will result in a significant increase in total assets due to the fact that rights of use and lease obligations have to be carried in the balance sheet. The increase in lease obligations will entail a corresponding increase in net financial debt. The increase in total assets means there will also be a reduction in the euromicron Group's equity ratio.

One of the effects on items in the consolidated income statement will be a significant improvement in EBITDA due to lower rent and lease expenses carried under "Other operating expenses". That will also have a positive impact on EBIT, although this effect will be far lower due to the additional amortization of the recognized rights of use. On the other hand, there will be higher interest expense and so a fall in the net financial result. There will also be corresponding expenses and income from deferred taxes. We initially expect a reduction in earnings before taxes from the presented effects in fiscal 2019. However, earnings will remain unchanged over the entire term of the leases.

In the consolidated statement of cash flows, the repayment portion of the lease payments from operating leases to date will reduce the net cash from financing activities in future. The cash flows for the lease payments made under operating leases were previously carried in the net cash from operating activities, which will therefore improve.

Based on the information gathered, the Group expects that additional rights of use and lease obligations totaling €28.0 million to €29.0 million will be recognized at January 1, 2019. As a result of that, the Group's equity ratio, which is 27.2% at December 31, 2018, is expected to fall by around 3 percentage points.

The Group does not anticipate any effects on compliance with agreed financial covenants as a result of the introduction of IFRS 16.

2.2 General principles

Preparation of consolidated financial statements in compliance with IFRS requires estimates. In addition, the application of company-wide accounting policies necessitates assessments by management. Areas where there is a large latitude for assessment or greater complexity or areas where assumptions and estimates are crucial to the consolidated financial statements are specified in section 3.

Unless otherwise specified, all amounts, including the figures for the previous year(s), are shown in thousand euros (€ thou.). The consolidated income statement has been prepared using the type of expenditure format. The fiscal year is the calendar year.

The balance sheet is presented by noncurrent and current assets and liabilities in accordance with IAS 1. Assets and liabilities are classified as current if they are due within twelve months. Irrespective of when they are due, inventories, trade accounts receivable and trade accounts payable, and contract assets and contract liabilities are regarded as current assets or liabilities even if they are not sold, consumed or due within a year, but are sold, consumed or due within the normal course of the business cycle. The time at which the assets and liabilities are due are presented in detail in the notes.

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Offsetting of assets and liabilities

In accordance with IAS 1.32, assets and liabilities and income and expenses are not allowed to be offset unless required or permitted by a standard or an interpretation. Offsetting was carried out in the following circumstances:

- Offsetting of deferred tax assets against deferred tax liabilities if they relate to income tax levied by the same tax authority and there is an entitlement to offsetting of an actual tax refund claim against an actual tax liability.
- Offsetting of pension obligations against the associated plan assets.
- Offsetting of payments on account received that can be directly assigned to individual construction contracts and are covered by services provided by the balance sheet date on the basis of the percentage of completion method.
- Offsetting of income and expenses from allowances according to IFRS 9

2.3 Currency translation

The consolidated financial statements of euromicron AG are prepared in euro, the functional currency of euromicron AG.

Foreign currency transactions are translated into the functional currency at the exchange rates at the time of the transaction. Gains and losses resulting from fulfillment of such transactions and translation of monetary assets and liabilities held in foreign currency at the balance sheet date are recognized in the income statement.

The results and balance sheet items of Group companies that have a different functional currency to the euro are translated into euros as follows:

- Assets and liabilities are translated at the spot rate on the balance sheet date.
- Income and expenses are translated for each income statement at the average rates during the year (unless use of the average rate does not result in a reasonable approximation of the cumulative effects that would have resulted from translation at the rates applicable at the times of the transactions, in which case income and expenses are to be translated at their rates on the transaction date).

All resultant translation differences are recognized in equity in the separate item “Currency translation difference”.

2.4 Consolidation principles

Subsidiaries

Subsidiaries are all companies that are controlled by the Group. The Group controls an associated company if it has power of disposal over the company, there is a risk exposure as a result of or rights to variable returns from its engagement in the associated company and the Group has the ability to use its power of disposal over the company so as to influence the level of the variable returns from the associated company. Subsidiaries are included in the consolidated financial statements by way of full consolidation. They are included from the date on which control has passed to the Group and no longer included where the Group does not have control over them.

The financial statements of euromicron AG and its German and foreign subsidiaries included in the consolidated financial statements have been prepared in accordance with Group-wide accounting policies.

Receivables and payables between the companies included in the consolidated financial statements are offset against each other; any differences are recognized in the income statement under “Other operating income” or “Other operating expenses” respectively. If impairment allowances for shares of consolidated companies or intragroup receivables are carried in individual financial statements, they are reversed as part of consolidation.

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Intragroup sales, material expenses, other operating expenses and income and interest are eliminated in the consolidated financial statements. Deferred taxes are formed for transactions recognized in profit or loss as part of consolidation.

The Group dispenses with the elimination of intercompany profits in inventories and fixed assets since the resultant amounts are of minor importance.

Company acquisitions

Acquired subsidiaries are carried using the purchase method of accounting in accordance with IFRS 3. The transferred consideration for the acquisition corresponds to the fair value of the assets, the issued equity instruments and the debts that were assumed at the time of the transaction. It also includes the fair values of any recognized assets or liabilities resulting from a conditional consideration agreement. Identifiable assets, liabilities and contingent liabilities as part of a business combination are measured at their fair value at the time of acquisition in first-time consolidation. Any positive difference remaining after allowance for deferred taxes is carried as goodwill under the intangible assets.

If the transferred consideration is less than the net assets of the acquired subsidiary measured at fair value, the difference is recognized directly in the income statement.

Incidental costs as part of company acquisitions are recognized as an expense in the current period and carried under "Other operating expenses" (mainly as consulting costs).

Non-controlling interests are measured at their share proportionate to the identifiable and re-measured net assets of the subsidiary.

If put or call options for non-controlling interests are concluded in a company acquisition, the "anticipated acquisition method" is used; complete acquisition is assumed in this method, with the result that non-controlling interests are not carried.

Any conditional considerations are measured at fair value at the time of acquisition. Subsequent changes to the fair value of a conditional consideration classified as an asset or liability are measured in accordance with IFRS 9 and any resultant profit or loss is recognized in the income statement. A conditional consideration classified as equity is not re-measured; its later settlement is recognized in equity.

When the group loses control of a company, the remaining portion is re-measured at fair value and the resultant difference recognized as profit or loss. In additional, all the amounts reported in the other comprehensive income in relation to that company are recognized as would be required if the parent company had directly sold the associated assets and liabilities. That means any profit or loss previously carried in the other comprehensive income is reclassified from equity to profit/loss.

2.5 Intangible assets – Goodwill

Goodwill from business combinations is not written off using the regular method of depreciation, but examined for impairment at least once a year in accordance with the regulations of IAS 36 (impairment test). euromicron tests goodwill for impairment every year at December 31 of the respective year under review. An impairment test is also conducted if there are indications or circumstances ("triggering events") that suggest the value might be reduced.

In the impairment test, the carrying amount of each cash generating unit (CGU) to which goodwill is allocated is compared with the recoverable amount. The carrying amount of a CGU is determined by addition of the carrying amounts of the assets minus the associated liabilities. The recoverable amount is the higher of its fair value less costs of retirement and value in use of a CGU. The fair value is calculated as the present value of the future free cash flow using the discounted cash flow (DCF) method with a risk-adjusted discount rate (WACC).

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In order to determine recoverable amounts for the cash-generating units, payment flows for the next five years were forecast on the basis of past experience, current operating results and the best-possible assessment of future developments by management, as well as on market assumptions. The near-term sales planning is geared to the sales pipeline and the analyzed potentials for new and existing customers. In its multi-year approach, management is essentially oriented toward the potentials and anticipated individual developments of the addressed markets. The anticipated effects of measures by government and public authorities in the field of infrastructure are also taken into account if they can be adequately foreseen. The variable costs mainly change in line with the anticipated development of sale volumes and purchase prices. The planning figures are updated for subsequent years using a long-term growth rate of 0.75% (previous year: 1.0%). The fair value determined for the groups of cash-generating units was assigned to level 3 in the hierarchy of fair values.

Other intangible assets

The other intangible assets comprise concessions, industrial and similar rights, brand name rights, capitalized development costs and self-created software. The other intangible assets are carried at cost and amortized using the straight-line method, on the basis of the following useful lives: Table 031

Useful lives of other intangible assets 031

	Useful life in years
Concessions, industrial and similar rights	3 – 10
Brand name rights	10 – 25
Capitalized development costs	3 – 8
Self-created software	5

There are no intangible assets with an indefinite period of use either at the balance sheet date or at the balance sheet date of the previous year.

In the case of self-created intangible assets, development costs are carried at acquisition and manufacturing cost in accordance with IAS 38, provided the expenses can be clearly assigned, technical feasibility is ensured, there is the intent and ability to create and sell the intangible assets, and marketing of products based on development work is likely to result in future inflows of funds.

Capitalized development costs and own work for self-created software and IT solutions include directly attributable unit costs, which are recorded in cost accounting, and pro-rata overhead costs.

Research expenditure – where incurred – is posted as an expense, but is not a material factor at the euromicron Group.

Property, plant and equipment

Property, plant and equipment is measured at its acquisition or manufacturing cost less cumulated depreciation.

Property, plant and equipment is depreciated using the straight-line method, on the basis of the following useful lives: Table 032

Useful lives of property, plant and equipment 032

	Useful life in years
Buildings / leasehold improvements	5 – 40
Technical equipment and machinery	3 – 14
Other equipment, operating and office equipment	3 – 16

Financing costs are capitalized as acquisition or manufacturing costs in accordance with IAS 23 if they are directly attributable to a qualifying asset. This relates to assets for which borrowing costs can be directly attributed to the acquisition or production of a qualifying asset and for which a considerable period of usually more than twelve months is required to put them into a usable state. In the past fiscal year or in the previous fiscal year before that, there were no borrowing costs that must be capitalized within the meaning of IAS 23.

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Impairment of long-lived assets

Long-lived assets (other intangible assets and property, plant and equipment) are tested for impairment if, due to events or changes in circumstances, there are indications that the carrying amount of the objects can no longer be recovered (triggering events). As part of the impairment test, assets are grouped at the lowest level for which cash flows can be separately identified (CGU). The recoverable amount is the higher of its fair value less costs to sell and its value in use. The fair value of the asset is the price that would be obtained for the asset on the measurement date in an orderly business transaction between market participants.

Value in use is the present value of the estimated future cash flow expected to be derived from continued use of an asset and its retirement at the end of its useful life. If the reasons for the value impairments in earlier reporting periods no longer exist, the assets – with the exception of goodwill – are written up again.

2.6 Leasing

If, in accordance with IAS 17, the lessee bears the main risks and opportunities in relation to leased assets, economic ownership is ascribed to the lessee ("finance lease"). In the case of the assets leased by the euromicron Group, the leased object under a finance lease is carried at the time of addition in other intangible assets or the property, plant and equipment at the lower of its fair value or the present value of the minimum lease payments. Capitalized leased objects are written down using the straight line method over their scheduled useful lives or over the agreement's term. The corresponding liability to the lessor is carried at the same amount under "Liabilities from finance leases" at the time of the addition and amortized by means of the effective interest method.

If the main risks and opportunities from a lease remain with the lessor, this constitutes an operating lease. Payments in connection with an operating lease are carried in the income statement linearly over the term of the lease.

When the euromicron Group leases assets in a finance lease, the present value of the minimum lease payments is carried as the leasing receivable. The difference between the gross receivable (minimum lease payments before discounting) and the present value of the receivable is carried as unrealized financial income.

Lease contracts are recognized over the term of the lease in income in such a way that there is a constant rate of interest for the leasing receivable.

Assets that are leased by the euromicron Group as part of an operating lease are allocated on the balance sheet on the basis of their nature. Income from operating leases is carried linearly over the term of the lease.

2.7 Inventories

Inventories are carried in principle at the lower of acquisition/historical cost or net realizable value on the balance sheet date in accordance with IAS 2.9. The net realizable value is the estimated selling price that can be achieved in the ordinary course of business, less the variable costs necessary to make the sale. An average value or a value calculated using the first in, first out method is normally used at the euromicron Group to measure inventories. The historical cost of inventories includes production materials and labor costs, as well as allocable material and production and administrative overheads. In the past fiscal year or in the previous fiscal year before that, there were no borrowing costs that had to be capitalized within the meaning of IAS 23.

2.8 Other receivables

Other receivables are measured at amortized cost.

2.9 Contract assets and contract liabilities

The euromicron Group's portfolio includes project companies that report project and installation services running beyond the key date in their balance sheet. Customer-specific construction contracts are carried on the basis of their percentage of completion, which is derived using the input-oriented cost-to-cost method. The performance provided, including pro-rata earnings, is recognized in revenue over time. Depending on the relationship between performance by euromicron and payment by the customer, a contract asset, a contract liability or a receivable is recognized. Contract assets and contract liabilities are regarded as current assets or liabilities since they are incurred within the normal course of the business cycle. Receivables are recognized if the right to receive a consideration is no longer subject to any condition. Allowances on contract assets for counterparty risks are carried in accordance with the method described under "Trade accounts receivable".

2.10 Financial assets

As of January 1, 2018, classification of financial assets when they are first carried and their subsequent measurement depend on the company's business model for managing its financial assets and from the characteristics of the contractual cash flows from the financial assets. The euromicron Group reclassifies debt instruments only if the business model for managing such assets has changed.

The euromicron Group's business model for managing its financial assets reflects how the company manages its financial assets in order to generate cash flows. Depending on the business model, the cash flows are generated by collection of contractual cash flows ("Hold to collect" business model), the sale of financial assets ("Sell" business model) or both "Hold to collect and sell" business model).

So that a financial asset can be classified as and measured at "amortized cost" or "fair value through other comprehensive income", the cash flows must comprise solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is termed "SPPI test" and is conducted at the level of the individual financial instrument.

The euromicron Group measures a financial asset at fair value when it is carried for the first time. Transaction costs of a financial assets measured at fair value through profit or loss are recognized as an expense in profit or loss.

As of January 1, 2018, euromicron AG classes its financial asset in the following measurement categories:

a) Measurement at amortized cost: Financial assets with the "Hold to collect" business model that pass the SPPI test are measured at amortized cost. These assets are subsequently measured using the effective interest method and must be tested for impairment. Gains and losses are recognized in the income statement in the event of derecognition, modification or impairment of these assets. For reasons of materiality, impairment losses or reversals of impairment losses in accordance with IFRS 9 are not presented in a separate item in the income statement, but under the other operating expenses or other operating income, respectively. Interest income is recognized in the financial income. Gains or losses from derecognition are recognized together with the foreign currency gains and losses under the other operating income or other operating expenses, respectively.

b) Measurement at fair value through other comprehensive income: Assets with the "Hold to collect and sell" business model that pass the SPPI test are measured at fair value through comprehensive income. Interest income, remeasurement of currency translation gains and losses, and impairment costs or reversals of impairment losses are recognized in the income statement and calculated as for financial assets measured at amortized cost. The remaining changes to the fair value are carried in other comprehensive income. When the financial asset is derecognized, the accumulated profit or loss previously carried in the other comprehensive income is transferred from equity to the income statement. Interest income is carried in the financial income using the effective interest method. Foreign currency gains and losses are carried under the other operating income or other operating expenses, respectively.

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c) Measurement at fair value through profit or loss: Assets with the "Sell" business model are classified in this category and subsequently measured at fair value through profit or loss. Gains and losses from a change to the fair value are netted off and carried under the other financial income or other financial expenses.

The euromicron Group has financial assets in the categories "Amortized cost" and "Fair value through profit or loss" at the balance sheet date. Most of the euromicron Group's financial assets are in the measurement category "amortized cost". The euromicron Group's financial assets that are measured at "fair value through profit or loss" mainly comprise receivables that have been tendered, but are still on the balance sheet (for example because the factoring volume of the Group company in question or the trade debtor is already used up).

There is the irrevocable possibility of applying a "fair value through other comprehensive income" option for equity instruments provided the instruments in question meet the definition of equity under IAS 32 and are not held for trading. Otherwise they are measured at "fair value through profit or loss". Each instrument is classified individually. The shares in the listed company Track Group Inc., Utah, U.S., carried by the euromicron Group under "Other financial assets" were assigned to the category "Fair value through profit or loss" in accordance with IFRS 9 as part of its first-time application; the "fair value through other comprehensive income" option is not used.

Regular purchases or sales of financial assets are recognized on the day of trading. Financial assets are derecognized if the rights to payments from the financial assets have expired or been transferred and the Group has essentially transferred all risks and opportunities attached to ownership of them.

The trade accounts receivable sold at the balance sheet date result in a partial disposal with booking of a low continuing involvement.

2.11 Impairment of financial assets

As of January 1, 2018, the Group assesses on a prospective basis the expected loss relating to its debt instruments (which are measured at amortized cost). The impairment method depends on whether there is a significant increase in the credit risk.

In order to determine the extent of provisions for risks, there is a three-tier model under which in principle expected losses for twelve months are to be carried as of first-time recognition and, in the event of a significant deterioration in the credit risk, the anticipated total losses are to be recognized. An exception to the general impairment model is the simplified impairment model for trade receivables, receivables from finance leases and contract assets in accordance with IFRS 15. Under the simplified impairment model, a risk provision must be carried for all instruments (regardless of the quality of the credit) to the amount of the anticipated losses over their remaining term. Since the trade accounts receivable and contract assets do not contain any significant financing component, a provision matrix is created for estimating the expected losses of these financial instruments. This provision matrix is based on the euromicron Group's prior experience with credit losses and has been adapted to reflect prospective factors that are specific to the debtors and general economic conditions.

If there are substantial objective indications that a financial asset is impaired, it is tested individually for impairment. Such indications of impairment are, for example, a deterioration in a debtor's creditworthiness and related delays in or stoppage of payment or the threat of insolvency. Receivables, trade accounts receivable and contract assets are derecognized if, in a reasonable assessment, they can not longer be realized. That is the case at euromicron if the debtor does not commit itself to a repayment schedule or, at the latest, files insolvency proceedings.

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No allowances are carried for cash and cash equivalents and other financial assets for reasons of materiality.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash and demand deposits that have a maximum remaining term of three months at the time they are acquired. They are measured at their nominal value.

2.13 Current and deferred taxes

The tax expense for the period is composed of current and deferred taxes. Taxes are carried in the income statement, unless they relate to items that are recognized directly in equity or the other comprehensive income. In that case, the taxes are likewise carried in equity or the other comprehensive income.

The current tax expense is calculated using the tax regulations that apply on the balance sheet date for the countries in which the company and its subsidiaries earn taxable income.

Deferred taxes are formed on temporary differences in carrying values between the consolidated balance sheet and tax balance sheet and on loss carryforwards using the liabilities method in accordance with IAS 12. In this, deferred taxes at the level of the individual companies and from consolidation effects are taken into account.

Deferred tax claims (deferred tax assets) are recognized to the extent that is it probable that there will be a taxable result in future. The tax rates that are enacted or can be expected to be enacted on the balance sheet at the time of realization are used to calculate deferred taxes. In general, deferred taxes are carried in the noncurrent balance sheet items.

Deferred taxes resulting from temporary differences in connection with shares in subsidiaries are not recognized if the time at which the temporary differences are reversed can be determined by the Group and it is likely that the temporary differences will not be reversed in the foreseeable future due to this influence.

Deferred tax assets are netted off against deferred tax liabilities if they relate to income tax levied by the same tax authority and there is an entitlement to offsetting of an actual tax refund claim against an actual tax liability.

2.14 Equity

Equity comprises the shares in euromicron AG. There are no preferential shares or shares whose nominal amounts must be repaid.

In accordance with IAS 32.37, the equity transaction costs incurred as part of capital increases and the issue of new shares or options, minus deferred taxes, are directly offset with the premium and not recognized in the income statement.

If a company in the euromicron Group acquires equity interests in euromicron AG (treasury shares), the value of the paid consideration, including directly attributable additional costs (net after income taxes), is deducted from euromicron AG's equity until all the shares have been redeemed or issued again. If such treasury shares are subsequently issued again, the received consideration (net after deduction of directly attributable additional transaction costs and related income tax) is carried in euromicron AG's equity.

2.15 Liabilities

Liabilities are classified as current if the payment obligation is due within one year or if they are due within the normal course of the business cycle. Otherwise, they are classified as noncurrent liabilities.

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When carried for the first time, liabilities are measured at fair value. They are subsequently measured at amortized cost using the effective interest method.

2.16 Financial liabilities

As of January 1, 2018, financial liabilities will basically be classified in two categories when they are carried for the first time, provided the criteria of IFRS 9 are met:

a) Financial liabilities at fair value through profit or loss;

b) Other financial liabilities measured at amortized cost using the effective interest method.

The euromicron Group's financial liabilities comprise trade accounts payable, other liabilities and loans, including overdrafts.

All financial liabilities are measured at fair value when they are recognized for the first time, with directly attributable transaction costs being deducted from loans and liabilities. Financial liabilities are subsequently measured at fair value through profit or loss. Changes to fair value are carried in the income statement in the period they occur.

All other financial liabilities are measured in subsequent periods at amortized acquisition cost using the effective interest method. Gains and losses are recognized in the income statement when the liability is derecognized and also as part of amortization using the effective interest method. Amortized costs are calculated taking into account any premium or discount upon acquisition and any fees or charges that are an integral part of the effective interest rate. Amortization using the effective interest method is carried in the income statement under the financial expenses. Interest-bearing loans are usually included in this category.

Financial liabilities are only derecognized on the balance sheet if their underlying obligation has been fulfilled or canceled or has elapsed.

2.17 Provisions for pensions and similar obligations

There are defined benefit and defined contribution pension schemes at the euromicron Group. A defined contribution scheme is a pension scheme where the Group pays fixed contributions to a company (fund) that is not part of the Group. The Group has no legal or factual obligation to pay additional contributions if the fund does not contain sufficient assets to settle the pension entitlements of all employees from the current and previous fiscal years. A defined benefit scheme is a scheme that is not a defined contribution scheme. Typically, defined benefit schemes prescribe an amount for the pension benefits which the employees will receive when they retire and which is usually dependent on one or more factors (age, length of service and salary).

The provision for defined benefit schemes on the balance sheet corresponds to the present value of the defined benefit obligation (DBO) on the balance sheet date minus the fair value of the plan assets. The DBO is calculated annually by an independent actuarial expert using the projected unit credit method. The present value of the DBO is calculated by discounting the anticipated future cash payments at the interest rate of high-quality corporate bonds. The corporate bonds are denominated in the currency of the amounts to be paid out and have maturities matching the pension obligations.

The current service cost reflects the increase in the benefit obligation earned by employees in the period under review. It is carried in the income statement under "Personnel costs". Past service costs are also recognized immediately in the income.

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The net interest is calculated by multiplying the net debt (asset) from the defined benefit schemes by the discount rate. Both are calculated at the beginning of the period under review, taking into account any changes that have occurred to the net debt due to payments of contributions and benefits in the course of the period under review. The net interest is carried under "Net interest income/loss" in the income statement.

New valuations due to experience adjustments and changes to actuarial assumptions are recognized in equity under "Other comprehensive income" in the period in which they occur.

In the case of defined contribution schemes, the Group pays contributions to public or private pension institutions voluntarily or subject to a statutory or contractual obligation. The Group has no further payment obligations above and beyond making the contributions. The contributions are carried under "Personnel costs" when they are due. Prepaid contributions are recognized as assets to the extent that there is a right to repayment or a reduction in future payments.

2.18 Other provisions

Provisions are recognized in the case of a current legal or constructive obligation to third parties from a past event where utilization is probable and the expected amount of the necessary provision can be measured reliably. The provisions are measured in compliance with IAS 37 at the best estimate of the expenditure required to settle the obligation. Provisions are reversed against the expense item where the original allocation to a provision was carried. If the discounting effect for long-term provisions is material, the provisions are recognized at the present value of the anticipated future cash flows.

2.19 Revenue from contracts with customers

euromicron comprises companies whose specialist know-how complements each other. From its own products, distribution, system solutions, to maintenance and further services, euromicron offers a full-line portfolio in the field of digitalization.

euromicron recognizes revenue from contracts with customers when the control over separable goods or promised services passes to the customer, i.e. when the customer has the ability to determine use of the transferred goods or services and substantially all of the remaining benefits from the them. That requires a contract that creates enforceable rights and obligations and, among other things, collection of the consideration – taking the customer's creditworthiness into account – is likely.

The revenues correspond to the transaction price to which euromicron is likely to be entitled. They are stated net of discounts, customer bonuses and rebates. If a contract comprises multiple separable goods or services, the transaction price is split over the performance obligations on the basis of the relative standalone selling prices. If standalone selling prices are not directly observable, euromicron estimates them reasonably.

For each performance obligation, revenues are recognized either at a specific point in time or over a specific period of time.

Revenue from the sale of goods

The technology suppliers of euromicron develop and produce active and passive optical network components, high-quality fiber-optic cabling systems, public address systems, testing and inspection equipment, networked workplace systems and highly professional safety and security technology for special applications. These revenues are recognized at a point in time when control passes to the purchaser and euromicron fulfills its performance obligation. That is usually the case when the goods are supplied or handed over to the customer. Invoices are issued in accordance with the contractual terms and conditions; the terms of payment usually envisage payment within 30 to 60 days of invoicing.

Revenue from project business

Our project business ranges from networking and digitalization of individual buildings (such as office buildings or hospitals) to supraregional networking of companies and public authorities. The revenue from project business is mainly from projects with just one

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performance obligation and is recognized over a specific period of time in accordance with the percentage of completion method on the basis of the ratio of the already incurred costs to the estimated total costs. An anticipated loss from a contract is immediately recognized as an expense.

The percentage of completion method is based on an estimate of the extent to which the contract has been completed; it may also entail estimates on the scope of deliveries and services required to fulfill the contractual obligations. These significant estimates comprise the estimated total costs, the estimated total revenues, the order risks – including technical, political and regulatory risks – and other important factors. Estimates of revenues, costs or the progress of an order are revised if circumstances change. Supplements or changes to a contract are recognized, among other things, only if it is highly likely that the work performed will result in revenue. Any resultant increases or reductions in the estimated revenues or costs are carried in profit or loss in the period in which the circumstances leading to the revision become known. Invoices are issued in accordance with the contractual terms and conditions; the terms of payment usually envisage payment within 14 to 60 days of invoicing.

Revenues from the performance of services

Our services cover the entire range of information technology and, for example, include services related to platforms and software. The revenue comes from fees we receive for, among other things, the use of licenses for software products, consulting services and other services. euromicron assumes responsibility for all IT administration work and other services, such as maintenance. Revenues from the performance of services are recognized linearly over a specific period of time or – if provision of the services is not linear – when the services are provided. Invoices are issued in accordance with the contractual terms and conditions; the terms of payment usually envisage payment within 7 to 30 days of invoicing.

Revenues from distribution

In the area of distribution, euromicron supplies customers with active and passive network components in the fiber-optic and copper arena on a vendor-independent basis. It also offers a full portfolio for FTTx networks and passive data center design. These revenues are recognized at a point in time when control passes to the purchaser and euromicron fulfills its performance obligation. That is usually the case when the goods are supplied or handed over to the customer. Invoices are issued in accordance with the contractual terms and conditions; the terms of payment usually envisage payment within 30 to 90 days of invoicing.

2.20 Statement of cash flows

In accordance with IAS 7, the statement of cash flows presents the changes in cash funds reported in the consolidated balance sheet under the item "Cash and cash equivalents" and comprising cash and cash equivalents (cash on hand, demand deposits at banks and checks) with a term of no more than three months. The cash flows are grouped by the three areas of operating, investing and financing activities. Net cash provided by operating activities is determined using the indirect method in accordance with IAS 7.18.

Net cash provided by operating activities is derived indirectly by the income before income taxes being adjusted for the effects of non-cash transactions and allowing for changes in current assets and liabilities and paid and received interest and income taxes.

Cash outflows from the exercise of options or preemptive tender rights in relation to minority interests that are not recognized as such due to use of the "anticipated acquisition method" are shown in the "Net cash provided by/used in investing activities" in the consolidated statement of cash flows.

3. Discretionary decisions and uncertainties in estimates

In preparation of the consolidated financial statements, it is necessary to make estimates and assumptions that have an effect on the recognition and measurement policies and the level of assets, liabilities and contingent liabilities, as well as the level of expenses and income. The assumptions and estimates are based on the knowledge and data available at the balance sheet date; however, the actual results may differ from the anticipated figures and result in appropriate adjustments to the carrying amounts of the assets and liabilities. The assumptions and estimates of relevance to preparation of the consolidated financial statements are constantly reviewed.

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Predictive estimates and assumptions are essentially made for the following:

- Measurement of goodwill: €110,629 thousand (previous year: €110,629 thousand)

Goodwill is tested for impairment every year and as warranted (event-driven test). As part of this impairment test, specific measurement parameters, such as future sales growth and future EBITDA margin, are estimated, with management making assessments as regards the development of markets, market share and prices. We refer in this regard to the notes on the consolidated balance sheet, section 2.5.

- Measurement of capitalized development costs: €9,684 thousand (previous year: €9,078 thousand)

We refer in this regard to the notes on the consolidated balance sheet, section 2.5.

- Payment of income taxes (claims for refunds (+) and income tax liabilities (–) netted off): € –735 thousand (previous year: € –457 thousand)

Claims for refunds and income tax liabilities are based on calculations that include estimates and assumptions. The final amount is not fixed until the tax assessment notices have been issued or the tax audits completed.

- Contract assets: €40,755 thousand (previous year: "Gross amount due from customers for contract work": €52,518 thousand).

- Contract liabilities: €4,209 thousand (previous year: "Gross amount due to customers for contract work": €2,014 thousand)

DUse of the percentage of completion method demands in particular estimates of the anticipated total costs and revenues for construction contracts. We refer in this regard to the notes on the consolidated balance sheet (sections 10 and 14) and the notes on the consolidated income statement (section 16).

- Measurement of the other provisions (short- and long-term): €3,594 thousand (previous year: €3,706 thousand)

Measurement of the other provisions is based in particular estimates as to their amount, the likelihood of their being utilized and the time they are utilized. We refer in this regard to the notes on the consolidated balance sheet (section 13 (a)).

- Measurement of provisions for pensions: €1,369 thousand (previous year: €1,424 thousand)

The present value of the pension obligations depends on a large number of factors that are based on actuarial assumptions. We refer in this regard to the notes on the consolidated balance sheet (section 13 (b)).

- Measurement of deferred taxes (deferred tax assets (+) and deferred tax liabilities (–) netted off): €34 thousand (previous year: € –5,343 thousand)

We refer in this regard to the notes on the consolidated balance sheet (sections 2.13 and 15).

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Consolidated companies

4. Companies included in the consolidated financial statements

The euromicron Group is made up of euromicron AG and 23 companies to be consolidated (previous year: 23). euromicron AG controls all of the associated companies. All companies are included in the consolidated financial statements by way of full consolidation.

Of these companies, 16 (previous year: 16) are based in Germany, 5 (previous year: 5) in other European countries, and 2 (previous year: 2) in non-European countries.

There were the following changes to the consolidated companies apart from euromicron AG: Table 033

Number of consolidated companies 033

	2018	2017
January 1	23	23
First-time consolidation / newly established companies	0	2
Deconsolidation	0	– 2
December 31	**23**	**23**

The table below presents the companies included in the consolidated financial statements: Table 034

[1] Exemption in accordance with Section 264 (3) HGB (German Commercial Code).

[2] Exemption in accordance with Section 264b HGB (German Commercial Code).

[3] Still operated under the name "Stark- und Schwachstrommontage GmbH" in the previous year.

[4] Due to an existing opposite put/call option on the preemptive right or acquisition of the remaining 2.5% stake, 100% of the shares must be economically ascribed to euromicron AG for consolidation purposes.

[5] Due to existing put/call options on the preemptive right or acquisition of the remaining 25% stake, 100% of the shares must be economically ascribed to euromicron AG for consolidation purposes.

euromicron AG makes use of the provision under Section 264 (3) and Section 264b of the German Commercial Code that exempts subsidiaries of euromicron AG from the obligation to prepare notes and/or a management report and to audit and disclose annual financial statements and management reports and fulfills all the necessary conditions.

List of companies included in the consolidated financial statements 034

	Share in capital in %
Parent company:	
euromicron AG, Frankfurt/Main, Germany	
Consolidated subsidiaries	
telent GmbH [1] – ein Unternehmen der euromicron Gruppe, Backnang, Germany	100.00
RSR Datacom GmbH & Co. KG [2], Essen, Germany	100.00
RSR Datacom Verwaltungs GmbH, Essen, Germany	100.00
ProCom Professional Communication & Service GmbH [1], Essen, Germany	100.00
euromicron austria GmbH, Seekirchen, Austria	100.00
ATECS AG, Zug/Switzerland	100.00
Secure Information Management GmbH [1], Neustadt a. d. W., Germany	100.00
euromicron Deutschland GmbH [1], Neu-Isenburg, Germany	100.00
ssm euromicron GmbH [1][3], Hamburg, Germany	100.00
MICROSENS GmbH & Co. KG [2][4], Hamm, Germany	97.50
MICROSENS sp.z.o.o. [4], Wroclaw / Poland	97.50
Microsens Beteiligungs GmbH [4], Hamm, Germany	97.50
EUROMICRON Werkzeuge GmbH [1], Sinn-Fleisbach, Germany	100.00
LWL-Sachsenkabel GmbH – Spezialkabel und Vernetzungstechnik [1], Gornsdorf, Germany	100.00
ELABO GmbH – ein Unternehmen der euromicron Gruppe [1], Crailsheim, Germany	100.00
Qubix S.p.A., Padua, Italy	90.00
SKM Skyline GmbH, Munich [1], Germany	100.00
Avalan GmbH – ein Unternehmen der euromicron Gruppe, Spiesen-Elversberg, Germany	100.00
euromicron holding gmbh, Seekirchen, Austria	100.00
Netzikon GmbH, Backnang, Germany	100.00
SIM Asia PTE.LTD, Singapore	100.00
KORAMIS GmbH 5), Saarbrücken, Germany	75.00
ProCom Communication Systems Trading (Beijing) Co. Ltd., Beijing, China	100.00

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5. Acquisition and disposal of companies and divisions

There have been no changes in the companies consolidated in the euromicron Group in fiscal year 2018. There were also no acquisitions or disposals of divisions.

6. Disclosures on company acquisitions from previous years

ATECS AG, Zug, Switzerland and Secure Information Management GmbH, Neustadt a. d. W.

On December 27, 2017, an agreement was reached to exercise the existing preemptive rights relating to the remaining 5.0% of the shares in ATECS AG, Zug, Switzerland, (hereinafter referred to as ATECS AG) and the remaining 5.0% of the shares in Secure Information Management GmbH, Neustadt a. d. W., (hereinafter referred to as SIM GmbH). As a result, euromicron AG holds all of the shares in ATECS AG and all of the shares in SIM GmbH. The amount of the liabilities from preemptive rights discounted to the present value was €500 thousand at December 31, 2017 (previous year: €493 thousand), of which €400 thousand (previous year: €394 thousand) is for ATECS AG and €100 thousand (previous year: €99 thousand) for SIM GmbH. These liabilities from preemptive rights were carried under "Other current financial liabilities". The above acquisitions were each subject to the suspensive condition that the purchase price had to be paid in full, which was done on January 10, 2018.

There was a subsequent purchase price payment of €33 thousand in fiscal year 2018. It was recognized in the income statement.

MICROSENS GmbH & Co. KG, Hamm, and Microsens Beteiligungs GmbH, Hamm

On December 13, 2017, the period for exercising the preemptive right and the purchase option relating to the remaining 2.5% of the shares in MICROSENS GmbH & Co. KG and Microsens Beteiligungs GmbH was extended. The options can now be exercised on January 1, 2018, at the earliest and on December 31, 2020, at the latest. The present value of this resultant liability from preemptive rights (fixed purchase price plus the conditional purchase price component) at December 31, 2018, is €251 thousand (previous year: €251 thousand) and is carried under "Current financial liabilities". As a result of interest accrued on this liability, there were interest expenses of €0 thousand in fiscal 2018 (previous year: €7 thousand).

The preemptive right and the purchase option relating to the remaining 2.5% of the shares in MICROSENS GmbH & Co. KG and Microsens Beteiligungs GmbH were not exercised up to December 31, 2018.

KORAMIS GmbH, Saarbrücken

As part of the acquisition of the company in 2017, the minority shareholder obtained a preemptive right to tender the remaining 25% of the shares and euromicron AG an option to purchase them. The minority shareholder can exercise the preemptive right in the period from October 1, 2019, to December 31, 2019; if the preemptive right is exercised, the purchase price is €650 thousand. telent GmbH can exercise the purchase option in the period from October 1, 2017, to December 31, 2019; if the option is exercised, the purchase price is €850 thousand. If neither the purchase option nor the preemptive right is exercised, the minority shareholder has a further preemptive tender right which it can exercise in the period from January 1, 2020, to March 31, 2020; if this preemptive right is exercised, the purchase price is €650 thousand plus a contractually agreed premium. The minority shareholder's respective share of the debt at the time of acquisition is deducted from the exercise prices of the individual put/call options.

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Notes on the consolidated balance sheet

7. Fixed assets

A complete overview of all long-lived assets is provided in the fixed asset movement schedule under b) "Property, plant and equipment" of these notes.

(a) Intangible assets

The intangible assets comprise goodwill, concessions, industrial property and similar rights, brand name rights, capitalized development costs and self-created software.

Goodwill

Goodwill developed as follows in the fiscal year: Table 035

Goodwill 035

	2018	2017
	€ thou.	€ thou.
Goodwill at January 1	110,629	108,291
Additions	0	2,363
Disposals	0	– 25
Goodwill at December 31	**110,629**	**110,629**

The addition of goodwill in the previous year resulted from the acquisition of the company KORAMIS GmbH by telent GmbH and the acquisition of the business operations of Elektroanlagen GmbH Dollenchen & Co. KG by way of an asset deal by euromicron Deutschland GmbH. The disposal of goodwill in the previous year resulted from the fact that the targets for a conditional purchase price component were not achieved from an acquisition that falls under the scope of IFRS 3 (2004 version).

The goodwill at the euromicron Group is distributed over the CGUs as follows: Table 036

Allocation of goodwill to CGUs 036

	31.12.2018	31.12.2017
	€ thou.	€ thou.
Smart Buildings	68,212	68,212
Critical Infrastructures	37,186	37,186
Distribution	5,231	5,231
Total	**110,629**	**110,629**

Goodwill impairment test

Regardless of any event-driven impairment tests, euromicron conducts the obligatory annual goodwill impairment test at December 31 of the reporting period. This annual impairment test was conducted at the end of fiscal 2018 on the basis of the cash-generating units identified at the end of the year.

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The impairment test is based on the following main planning and measurement assumptions: Table 037

Planning and measurement assumptions for the impairment test 037

CGU	Carrying amount of the goodwill allocated to the CGU in € thou.	Sales growth in %					EBITDA margin in %					Long-term growth rate
		2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	
Smart Buildings	68,212	10.1 %	6.4 %	5.5 %	5.4 %	5.2 %	6.7 %	8.0 %	8.7 %	9.7 %	10.4 %	0.75 %
Critical Infrastructures	37,186	3.7 %	5.0 %	5.6 %	2.8 %	2.3 %	5.7 %	6.7 %	7.3 %	7.6 %	7.7 %	0.75 %
Distribution	5,231	–1.7 %	6.8 %	5.5 %	4.9 %	3.6 %	14.7 %	14.6 %	14.8 %	14.9 %	15.0 %	0.75 %

In particular, estimates by management of how the markets, market shares and prices will develop are subject to some uncertainty.

Since individual business risks have already been taken into account in preparing the budgeting for the respective CGUs and will reduce the derived free cash flow, the following parameters were applied uniformly to all CGUs for calculating the WACC for the impairment test at December 31, 2018: Table 038

Interest assumed in the 2018 impairment test 038

	2018	2017
Borrowing rate after taxes	2.20 %	1.49 %
Risk-free interest rate	0.89 %	1.07 %
Markup for return on equity	6.50 %	6.50 %
Beta factor	1.44	0.79
Ratio between outside capital / equity	57.5 %	6.25 %
Weighted average cost of capital (WACC)	7.29 %	5.94 %
Growth rate	0.75 %	1.00 %
WACC perpetuity	6.54 %	4.94 %

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As in the previous year, the goodwill impairment test at December 31, 2018, did not reveal any need to reduce the value of the goodwill of individual CGUs.

Sensitivity analysis

As part of a sensitivity analysis, changes to the parameters that were considered possible were simulated stepwise in a model calculation for each of the cash-generating units and examined as to whether there was a need to reduce the value for the CGU.

Given the described assumptions and sustained sales growth of 0.75% at the end of the planning period the recoverable amount of the CGUs will sharply exceed the carrying amount. Even in the event of a sharp, unanticipated reduction in the assumptions for sustained sales growth (0.25% reduction in the estimated sales growth rate of 0.75%), or an increase in WACC by 1 percentage point or a 1.0% lower EBITDA margin over the whole planning period (including perpetuity), there would be a recoverable amount above the carrying amount and so no need for write-downs.

The fair value calculated as part of the goodwill impairment test was measured on the basis of level 3. The fair value is calculated as the present value of the future free cash flow using the discounted cash flow (DCF) method with a risk-adjusted discount rate (WACC). As part of that, assumptions are made about future sales or the anticipated EBITDA margin, for example.

Other intangible assets

Development costs for self-created intangible assets of €2,865 thousand were carried in the year under review (previous year: €2,775 thousand). In addition, own work for self-created software and IT solutions was capitalized to an amount of €205 thousand (previous year: €155 thousand) in the year under review.

Intangible assets were written down to an amount of €65 thousand in the year under review (previous year: €150 thousand). They are allocated in the fixed-asset movement schedule to the category "Concessions, industrial and similar rights" (previous year: to the "Capitalized development costs"). This relates to write-down of the remaining book value of a software program that is to be replaced by a new program at the beginning of 2019. In segment reporting, the write-downs on purchased intangible assets have been fully assigned to the "Smart Buildings" segment, as in the previous year.

(b) Property, plant and equipment

The manufacturing cost of capitalized, self-created property, plant and equipment contains the cost of direct materials and prime costs, as well as attributable overhead costs, and resulted in own work capitalized of €538 thousand in fiscal 2018 (previous year: €554 thousand).

As in the previous year, there were no write-downs of property, plant and equipment in fiscal 2018.

In accordance with IAS 16.74, at the balance sheet date there are no restrictions on title to, nor any significant contractual commitments to acquire property, plant and equipment. In addition, no property, plant or equipment has been assigned as collateral and there were no compensation payments to third parties due to value impairments in or loss of property, plant or equipment.

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Changes in the Group's assets

Changes in the Group's assets in 2018 039

	Acquisition cost						Depreciation/amortization					Carrying amounts	
	Jan. 1, 2018	Additions	Disposals	Additions from company acquisitions	Reclassification and other	Dec. 31, 2018	Jan. 1, 2018	Additions	Disposals	Reclassification and other	Dec. 31, 2018	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Goodwill	**123,133**	**0**	**0**	**0**	**0**	**123,133**	**–12,504**	**0**	**0**	**0**	**–12,504**	**110,629**	**110,629**
Intangible assets													
Concessions, industrial and similar rights	30,859	765	–539	0	–4	31,081	–27,371	–1,822	539	4	–28,648	2,433	3,488
Brand name rights	12,530	0	0	0	0	12,530	–9,179	–222	0	0	–9,401	3,129	3,351
Capitalized development costs	19,638	2,865	–672	0	0	21,831	–10,560	–2,256	672	0	–12,147	9,684	9,078
Self-created software	1,576	205	0	0	0	1,781	–936	–212	0	0	–1,148	633	640
	64,603	**3,835**	**–1,211**	**0**	**–4**	**67,223**	**–48,046**	**–4,512**	**1,211**	**4**	**–51,344**	**15,879**	**16,557**
Property, plant and equipment													
Land and buildings	10,417	46	–210	0	503	10,756	–4,603	–540	198	–100	–5,045	5,711	5,814
Technical equipment and machinery	10,070	743	–132	0	21	10,702	–7,396	–768	132	0	–8,032	2,670	2,674
Other equipment, operating and office equipment	33,302	4,183	–952	0	–520	36,013	–22,651	–3,816	910	96	–25,461	10,552	10,651
	53,789	**4,972**	**–1,294**	**0**	**4**	**57,471**	**–34,650**	**–5,124**	**1,240**	**–4**	**–38,538**	**18,933**	**19,139**
Total	**241,525**	**8,807**	**–2,505**	**0**	**0**	**247,827**	**–95,200**	**–9,636**	**2,450**	**0**	**–102,386**	**145,441**	**146,325**

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Changes in the Group's assets in 2017 — 040

	Acquisition cost						Depreciation/amortization					Carrying amounts	
	Jan. 1, 2017	Additions	Disposals	Additions from company acquisitions	Reclassification and other	Dec. 31, 2017	Jan. 1, 2017	Additions	Disposals	Reclassification and other	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Goodwill	**121,195**	**0**	**–400**	**2,338**	**0**	**123,133**	**–12,904**	**0**	**400**	**0**	**–12,504**	**110,629**	**108,291**
Intangible assets													
Concessions, industrial and similar rights	29,343	1,477	–121	160	0	30,859	–25,696	–1,816	120	21	–27,371	3,488	3,647
Brand name rights	12,530	0	0	0	0	12,530	–8,957	–222	0	0	–9,179	3,351	3,573
Capitalized development costs	22,602	2,775	–5,739	0	0	19,638	–14,181	–2,097	5,739	–21	–10,560	9,078	8,421
Self-created software	2,022	155	–601	0	0	1,576	–1,292	–245	601	0	–936	640	730
	66,497	**4,407**	**–6,461**	**160**	**0**	**64,603**	**–50,126**	**–4,380**	**6,460**	**0**	**–48,046**	**16,557**	**16,371**
Property, plant and equipment													
Land and buildings	9,169	209	–38	12	1,065	10,417	–4,250	–391	38	0	–4,603	5,814	4,919
Technical equipment and machinery	10,190	587	–712	0	5	10,070	–7,354	–754	712	0	–7,396	2,674	2,836
Other equipment, operating and office equipment	28,337	6,563	–773	245	–1,070	33,302	–20,480	–2,880	709	0	–22,651	10,651	7,857
	47,696	**7,359**	**–1,523**	**257**	**0**	**53,789**	**–32,084**	**–4,025**	**1,459**	**0**	**–34,650**	**19,139**	**15,612**
Total	**235,388**	**11,766**	**–8,384**	**2,755**	**0**	**241,525**	**–95,114**	**–8,405**	**8,319**	**0**	**–95,200**	**146,325**	**140,274**

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Leased equipment (€1,403 thousand; previous year: €1,809 thousand), operating and office equipment (€529 thousand; previous year: €675 thousand) and IT equipment reported under "Software" (€83 thousand; previous year: €115 thousand) were carried as finance leases with a net carrying amount of €2,015 thousand at December 31, 2018 (previous year: €2,599 thousand). Finance leases are used to fund assets with a useful life of at least three years – from machinery and production machines to warehouse systems at the manufacturing companies in the euromicron Group. Some of the existing finance lease agreements have purchase options at the end of their term. There was no subleasing from finance leases at the euromicron Group. See section 14 "Liabilities" for an explanation of the liabilities from financial leases.

All other lease agreements in which companies of the euromicron Group are the lessee are recognized as operating leases. The leasing payments are charged to expenditure (see section 28 "Other financial obligations, contingent claims and contingent liabilities"). There are no restrictions ("covenants") pursuant to leasing agreements.

(c) Other noncurrent financial assets

The table below presents the components of the other noncurrent financial assets: Table 041

Other noncurrent financial assets 041

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Shares in Track Group Inc.	21	55
Long-term receivables from finance leases	81	122
Rent deposits / deposits by third parties	53	51
Other noncurrent financial assets	3	4
Total	**158**	**232**

The shares in the listed company Track Group Inc., Utah, U.S., carried under "Other noncurrent financial assets" were acquired by euromicron AG in 2009. The stake held in its capital stock on the balance sheet date was 0.55% (previous year: 0.60%). The shares in Track Group Inc. are classified as a financial asset under the category "At fair value through profit or loss" and are measured at fair value. They were first measured at fair value on the day of trading (€934 thousand) and their carrying amount at December 31, 2017, was €55 thousand. The shares' fair value at the end of the fiscal year under review was €21 thousand. The value impairment of €33 thousand was recognized in the net financial result.

The receivables from finance leases are calculated as follows: Tables 042 and 043

Noncurrent receivables from finance leases 042

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Noncurrent receivables		
Gross receivables from finance leases	82	126
Financial income not yet realized	–1	–4
Total	**81**	**122**

Current receivables from finance leases 043

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Current receivables		
Gross receivables from finance leases	44	44
Financial income not yet realized	–2	–3
Total	**42**	**41**

The table below shows the reconciliation of gross investments in leases to the present value of the future minimum lease payments: Table 044

Gross investments in finance leases 044

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Gross receivables from finance leases		
Up to 1 year	44	44
1 to 5 years	82	126
More than 5 years	0	0
	126	**170**
Financial income not yet realized	–3	–7
Net investment in finance leases	**123**	**163**

There were no allowances for receivables from finance leases in fiscal 2018 (previous year: €0 thousand).

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8. Deferred tax assets

Deferred tax assets are calculated on the basis of measurement differences in the following balance sheet items: Table 045

Deferred tax assets 045

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Intangible assets	39	17
Inventories	25,317	24,885
Property, plant and equipment	1	0
Other receivables and other assets	92	91
Provisions	2,887	2,827
Liabilities from finance leases	324	469
Other liabilities	375	666
Loss carryforwards for corporation income tax / trade tax and income taxes abroad	10,623	3,919
Total before netting off	**39,658**	**32,874**
Netting off	–36,900	–32,619
Total after netting off	**2,758**	**255**

There are long-term deferred tax assets (after netting off) totaling €2,754 thousand (previous year: €251 thousand); they mainly result from deferred tax assets on tax loss carryforwards.

Of the deferred tax assets remaining after netting off and totaling €2,758 thousand (previous year: €255 thousand), €2,731 thousand (previous year: €128 thousand) is attributable to six Group companies that made a tax loss in fiscal 2018 or the year before (previous year: four Group companies). The deferred tax assets were recognized on the basis of positive tax budgeting for the respective company. The Executive Board is of the view that it is highly probable that the deferred tax assets can be realized. In accordance with IAS 1.122, this discretionary decision by the Executive Board as regards the accounting method has a significant impact on the financial statements and may be subject to change, depending on future developments.

As of December 31, 2018, the Group had corporation income tax loss carryforwards totaling €73,833 thousand (previous year: €48,546 thousand), trade tax loss carryforwards totaling €68,067 thousand (previous year: €44,921 thousand) and loss carryforwards for income taxes abroad totaling €18,142 thousand (previous year: €16,024 thousand). The loss carryforwards relate to eleven (previous year: ten) domestic holdings and euromicron AG and four (previous year: four) holdings abroad. Of the loss carryforwards, €2,775 thousand (previous year: €0 thousand) may be carried forward with restrictions.

No deferred tax assets have been formed on existing tax loss carryforwards totaling €89,885 thousand (previous year: €84,400 thousand). Of this, €54,650 thousand (previous year: €54,650 thousand) was attributable to loss carryforwards prior to the integrated inter-company relationship that cannot be used before the end of the integrated inter-company relationship, and €35,235 thousand (previous year: €29,750 thousand) was attributable to tax loss carryforwards that can probably not be offset against taxable profits on the basis of the budgeting in the foreseeable future, of which €17,249 thousand (previous year: €16,513 thousand) was due to discontinued operations of the respective companies.

Of the existing tax loss carryforwards for which deferred tax assets were not formed, €76,549 thousand (previous year: €71,796 thousand) was in Germany and €13,336 thousand (previous year: €12,604 thousand) abroad.

9. Inventories

The euromicron Group's inventories on the balance sheet data are broken down as follows: Table 046

Inventories 046

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Raw materials and supplies	11,655	11,878
Work in progress	3,846	3,346
Finished goods and merchandise	12,421	15,397
Prepayments	898	865
Total	**28,820**	**31,486**

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Of the inventories, €16 thousand (previous year: €0 thousand) have a shelf life of more than one year.

In fiscal 2018, there were write-downs on inventories totaling €601 thousand (previous year: €632 thousand) and reversals totaling €13 thousand (previous year: €0 thousand).

The carrying amount for the inventories recognized as an expense during the period was €111,183 thousand (previous year: €119,255 thousand).

10. Receivables and other current assets

Trade accounts receivable and contract assets

Trade accounts receivable that have defined terms of payment are classified in the measurement category "amortized cost". The receivables tendered as part of factoring are allocated to the category "Fair value through profit or loss". As in the previous year, all trade accounts receivable at December 31, 2018, were short-term.

The trade accounts receivable include receivables from supplier rebates totaling €731 thousand (previous year: €539 thousand), which may be offset with corresponding trade accounts payable.

The value of the contract assets is €40,755 thousand (previous year "Gross amount due from customers for contract work": €52,518 thousand).

Individual companies in the euromicron Group sell some of their receivables and contract assets to forfaiting companies (buyers of the receivables). The overall program for the Group has a maximum volume of €40,000 thousand (previous year: €40,000 thousand). At December 31, 2018, receivables and contract assets with a volume of €29,694 thousand (previous year: €32,481 thousand) were sold by the entire Group.

In accordance with IFRS 9, sold receivables from customers are only derecognized if essentially all opportunities and risks of the sold receivables have been transferred to the buyer of the receivables. The risk of the customer becoming insolvent (risk of nonpayment) is transferred to the buyer of the receivables under the contractual arrangements. The euromicron Group still bears the interest risk from delayed payments by customers.

Since virtually no opportunities and risks remain with euromicron, but not all of them without exception pass to the buyer of the receivables, euromicron carries the receivables at the amount of the continuing involvement of €181 thousand (previous year: €301 thousand). The continuing involvement is low relative to the total amount of the receivables sold. It is carried under "Other current financial assets". The continuing involvement comprises the maximum amount that euromicron would have had to pay to the buyer of the receivables up to receipt of payment relative to the carrying amount of the receivables sold on the key date.

Apart from the continuing involvement, there is a liability (associated liability) of €210 thousand (previous year: €312 thousand). It is carried under "Other current financial liabilities". The difference between the asset and liability items reflects the fair value of the continuing involvement. Interest expenses and charges resulting from the sale of receivables are carried in the net financial result.

Claims for income tax refunds

Claims for refunds due to the subsequent effects of the completed tax audit of euromicron AG (€66 thousand; previous year: €710 thousand) are carried under "Claims for income tax refunds" (€430 thousand; previous year: €928 thousand). In addition, receivables from creditable capital gains tax due to euromicron AG (€92 thousand; previous year: €77 thousand) and claims for income tax refunds of other Group companies (€272 thousand; previous year: €141 thousand) are disclosed.

Other current financial assets

The other current financial assets are broken down as follows: Table 047

Other current financial assets 047

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Receivables from factoring monies not yet paid out	4,149	2,877
Claims against former board members of euromicron AG	256	516
Continuing involvement (factoring)	181	301
Rent deposits / deposits	104	106
Receivables from finance leases	42	41
Other	6	57
Total	**4,738**	**3,898**

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The receivables from factoring monies not yet paid out comprise amounts from sold receivables not paid out by the factoring company at the balance sheet date (such as blocked amounts).

Other current assets

The other current assets changed as follows: Table 048

Other current assets 048

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Prepaid expenses	1,292	1,306
Claims for refunds from other taxes	612	468
Claims for refunds from interest on tax refunds	14	200
Claims against employees	39	43
Other	128	549
Total	**2,085**	**2,566**

11. Cash and cash equivalents

Cash includes cash on hand, demand deposits at banks and cash equivalents with a remaining term of no more than three months and are classified in the category "amortized cost". Table 049

Cash and cash equivalents 049

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Cash in banking accounts	6,526	4,922
Cash on hand	27	32
Total	**6,553**	**4,954**

12. Equity

(a) Subscribed capital and authorized capital

The number of shares of euromicron AG in circulation is 7,176,398. The capital stock of euromicron AG is €18,347,554.88. The nominal amount per share is around €2.56. The shares are fully paid up. Table 050

Shares in circulation 050

	Dec. 31, 2018	Dec. 31, 2017
Shares in circulation	7,176,398	7,176,398

The General Meeting on June 13, 2018, adopted a resolution to create new authorized capital totaling €7,339,020.00. The Executive Board is authorized, with the consent of the Supervisory Board of euromicron AG, to increase the capital stock of the company until June 12, 2023, by up to €7,339,020.00 through the issue of up to 2,870,558 registered shares in exchange for cash and/or non-cash contributions (authorized capital). The authorization can be exercised once or more times in partial amounts. In accordance with the Articles of Association, there is the possibility, under specific preconditions, to exclude the statutory shareholders' subscription right. The previously existing authorized capital (€9,173,770.00) was rescinded.

The General Meeting on June 13, 2018, also adopted a resolution to create new contingent capital totaling €7,339,020.00. As a result, the capital stock is increased conditionally by up to €7,339,020.00 through the issue of up to 2,870,558 registered shares (contingent capital 2018). The contingent capital increase is to be used to grant option or conversion rights or service conversion obligations and to grant shares instead of cash payments to the holders of bonds which the company or its group companies issue in compliance with the authorization adopted by the General Meeting on June 13, 2018. The new shares are to be issued at the option or conversion price defined in compliance with the authorization adopted by the General Meeting on June 13, 2018. The conditional capital increase shall be carried out only and insofar as the holders or creditors of bonds issued or guaranteed on the basis of the authorization adopted by the General Meeting on June 13, 2018, make use of their option or conversion rights, fulfill their conversion obligations or shares are granted to the holders or creditors of these bonds instead of cash payments and other forms of fulfillment to service them are not used. The new shares will participate in profits from the beginning of the fiscal year in which they are issued. The Executive Board is authorized to define the further details of the contingent capital increase with the consent of the Supervisory Board.

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Treasury shares

At December 31, 2018, there is no authorization from the General Meeting for euromicron AG to acquire its own shares. As in the previous year, the company did not therefore hold any treasury shares that could be offset with equity in accordance with IAS 32.33 at December 31, 2018.

(b) Capital reserves

The capital reserves at December 31, 2018, were unchanged year on year at €94,297,543.35.

The Company's capital reserves in accordance with Section 272 (2) of the German Commercial Code (HGB) comprise the premiums from share issues and capital increases. The capital reserves meet the requirements stipulated by Section 150 of the German Stock Corporation Law (AktG).

(c) Currency translation difference

The assets and liabilities of MICROSENS sp. z o.o., Wroclaw, Poland, whose functional currency is the Polish zloty, are translated at the mean spot exchange rate at the end of the period under review. Expenses and income are translated at mean rates during the year. The differences resulting from translation are recognized in equity and reclassified if the profit or loss from the sale of this foreign subsidiary is carried.

The difference resulting from translation of the financial statements of MICROSENS sp. z o.o. at December 31, 2018, is € –4 thousand (previous year: €4 thousand).

(d) Distributions in the fiscal year

As in the previous year, there were no dividend payouts in fiscal 2018.

(e) Non-controlling interests

The non-controlling interests reported at December 31, 2018 (€793 thousand; previous year: €599 thousand) relate exclusively to Qubix S.p.A., Padua (10%). The non-controlling interests should be regarded as not being material in relation to the consolidated financial statements.

The following table presents summarized financial information on the significant companies in which non-controlling interests are held or in which the euromicron Group does not hold all the shares: Table 051

Summarized financial information on subsidiaries with significant non-controlling interests 051

	Qubix S.p.A.		KORAMIS GmbH	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.	€ thou.	€ thou.
Noncurrent assets	131	173	713	465
Current assets	12,486	10,819	1,169	1,224
Assets	**12,617**	**10,992**	**1,882**	**1,689**
Noncurrent liabilities	717	630	6	13
Current liabilities	4,427	4,836	2,445	1,843
Net assets	**7,473**	**5,526**	**–569**	**–167**
Sales	16,757	14,800	3,402	3,693
Income before income taxes	4,453	3,613	–588	114
Income tax expense	–1,254	–1,025	187	–41
Total profit/loss	**3,199**	**2,588**	**–401**	**73**
Share of total profit/loss ascribable to minority interests	319	263	N/A	N/A
Dividends paid to minority interests	125	125	0	0
Cash funds at end of period	5,882	3,625	59	38
Minority interests:*	10.0 %	10.0 %	25.0 %	25.0 %

* Only Qubix S.p.A.is carried in the non-controlling interests of the euromicron Group.

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(f) Disclosures on capital management in accordance with IAS 1

The equity ratio and net financial debt are used as performance indicators. So as to ensure unrestricted access to the capital and credit markets at as favorable terms as possible and to increase the company's value, the objective of capital management is – taking into account the standard IFRS 16 "Leases" – to increase the equity ratio to above 30% and reduce current net financial debt in the medium term. Measures to help achieve that include reducing working capital and increasing consolidated earnings by safeguarding bread-and-butter business and tapping new strategic target markets in the field of digitalization. In addition, there is ongoing review of the possibility of reducing net debt by disposing of non-strategic Group companies. Net financial debt and the equity ratio are constantly monitored by management.

Follow-up financing with a maturity until March 31, 2021, was agreed with the financing partners in March 2018. The agreement specifies that the company must fulfill specific key ratios (covenants), which had to be tested quarterly for the first time as of June 30, 2018. They include the gearing ratio and key indicators relating to earnings and liquidity. The agreed key financial ratios were fulfilled in the year under review. In addition, the agreement specifies contractually stipulated repayments of €2.5 million effective March 31, 2019, and €25.0 million effective January 31, 2020. The lenders also have an extraordinary right to terminate the agreement if 30% or more of the shares and/or voting rights are taken over.

To repay the €25.0 million, the company has various repayment options available and the Executive Board initiated the process for validating them in 2018. They include measures to obtain liquidity on the capital market, as well as divestment measures involving the sale of non-strategic assets. Moreover, the company is holding discussions with investors and financial institutions about replacing or refinancing the current financing structure. Finally, there is the option of agreeing an extension to the special repayment II with the financiers. euromicron has engaged expert consultants to support it in all the measures. In view of the measures and planning that have been initiated, the Executive Board believes that reduction of debt by the above-described extent by January 2020 is ensured as far as can be seen at present.

The equity ratio is 27.2% (previous year: 31.1%) and is calculated as follows: Table 052

Equity ratio 052

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Equity acc. to consolidated balance sheet	66,207	78,541
Total assets	243,677	252,160
Equity ratio	**27.2%**	**31.1%**

The net financial debt is calculated from liabilities to banks (long- and short-term), liabilities from finance leases (long- and short-term), less cash and cash equivalents. At December 31, 2018, it is €92,239 thousand (previous year: €87,259 thousand). Table 053

Net financial debt 053

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Liabilities to banks	97,639	90,549
Liabilities from finance leases	1,153	1,664
Cash and cash equivalents	6,553	4,954
Net financial debt	**92,239**	**87,259**

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The increase in net financial debt of €4,980 thousand is attributable in particular to the fact that net cash used in investing activities (€ –7,803 thousand) in fiscal 2018 exceeded the reported net cash provided by operating activities (€3,346 thousand). However, it should be noted in this respect that the reported net cash provided by operating activities in fiscal 2018 was reduced by an amount of € –4,184 thousand by effects from factoring (in particular a lower volume of factoring). The increase in net financial debt is therefore mainly due to effects from the Group's lower use of factoring. We refer in this regard to section 27 "Notes on the statement of cash flows" and to the explanations on the financial position in the group management report.

13. Provisions

(a) Other provisions

euromicron expects that provisions of €1,941 thousand (previous year: €1,955 thousand) will be used within one year, €1,146 thousand (previous year: €1,267 thousand) in the next two to five years and €507 thousand (previous year: €484 thousand) in the period after five years.

The provisions developed as follows in the

Provisions 054

	Dec. 31, 2017	Adjustment from first-time application of IFRS 15	Jan. 1, 2018	Utilization	Reversal	Accrued interest/ discounting	Allocation	Reclassification from short to long term	Dec. 31, 2018
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Provision for anniversaries and death benefits	497		497	–33		–9	21		476
Provision for severance payments	471		471	–3			71		539
Provision for restoration obligations	290		290	–108			7		189
Provision for warranties and follow-up costs	189		189	–43				–13	133
Provision for archiving	121		121		–10		1		112
Other provisions	183		183	–8			29		204
Total for other long-term provisions	**1,751**		**1,751**	**–195**	**–10**	**–9**	**128**	**–13**	**1,653**
Provision for warranties and follow-up costs	1,073		1,073	–336	–345		330	13	735
Provision for impending losses	–	167	167	–167			403		403
Provision for legal disputes	505		505	–505			555		555
Other provisions	377		377	–119	–50	3	37		248
Total for other short-term provisions	**1,955**	**167**	**2,122**	**–1,127**	**–395**	**3**	**1,325**	**13**	**1,941**
Total for other provisions	**3,706**	**167**	**3,873**	**–1,322**	**–405**	**–6**	**1,453**	**–**	**3,594**

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fiscal year: Table 054

The provisions for severance payments relate to Group companies based in Austria and Italy and were set up pursuant to the obligation to make a specific one-off payment when an employment relationship ends.

The other long-term provisions include in particular a provision for severance payments to freelance commercial agents of a Group company based abroad.

The provisions for legal disputes comprise in particular legal costs for the current court instances in connection with litigation against former board members of the company and as part of the securities lending transactions.

The other short-term provisions are made up of various individual matters, such as provisions for interest in connection with tax audits or provisions for customs-related matters.

(b) Provisions for pensions and similar obligations

The euromicron Group has regulations on company pensions for active and former employees after fulfillment of the vesting periods, as well as their surviving dependants. These are mainly executives and employees for whom commitments from the time before a company was acquired have been assumed by euromicron AG.

The designated payments as part of pension schemes may be based either on the wage or salary received in the last year of employment or on the average of the last five years or the compensation of an employee and are usually dependent on the length of service. The benefits must be granted as a one-off payment or an annual pension payment. In the case of pension payments, the euromicron Group bears the full risk of recipients living for a long time and inflation due to pension adjustments. In the case that the employee is still alive, he or she acquires an entitlement to an existing benefit balance as an old-age benefit or invalidity benefit; the benefits paid to surviving dependants are a widow's pension and orphan's pension.

In order to cover a large part of the obligation, the euromicron Group has established a CTA (euromicron Pension Trust e. V.); the funds allocated to it are based on the level of the obligation.

The development in the pension commitment and plan assets are evidenced by actuarial reports. The changes in the present value of the defined benefit obligation (DBO) in the fiscal year are as follows: Table 055

Changes in the present value of the defined benefit obligation (DBO) 055

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Present value of benefit obligation at the beginning of the period under report	21,673	21,419
Transfer	0	0
Current service cost	341	373
Effects from plan settlements	0	–5
Interest cost	361	358
Pension payments	–461	–558
Revaluation effects	147	–7
of which change in financial assumptions	–334	0
of which change in demographic assumptions	306	0
of which experience adjustments	175	–7
Contributions by plan participants	78	68
Reclassification in connection with assets held for sale	0	25
Present value of benefit obligation at the end of the period under report	22,139	21,673

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The plan assets measured at fair value changed as follows: Table 056

Changes in the plan assets 056

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Plan assets at the beginning of the period under report	20,249	20,038
Interest income from plan assets	344	341
Revaluation effects	–297	–295
Employer contributions/ withdrawals	474	165
Plan assets at the end of the period under report	20,770	20,249

The plan assets consist to 100% (previous year: 100%) of trade accounts receivable of the euromicron Group, which are held in trust by the CTA. These assets are not traded on an active market.

Due to the increase of €147 thousand in the revaluation effects from pensions taken directly to equity (previous year: reduction of € –7 thousand), the deferred tax assets recognized via the other comprehensive income directly in equity rose in the year under review by €44 thousand; they had fallen in the previous year by €2 thousand. In addition, deferred tax expenses of €89 thousand (previous year: €88 thousand) from application of the net interest method were carried against the other comprehensive income.

The provision on the balance sheet changed as follows: Table 057

Provision on the balance sheet 057

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Provision at the beginning of the period under report	1,424	1,381
Current service cost	341	373
Effects from plan settlement	0	–5
Net interest cost/income	16	17
Pension payments	–461	–558
Employer's contributions/withdrawals	–474	–165
Contributions by plan participants	78	68
Revaluation effects	445	288
Other effects	0	25
Provision at the end of the period under report	1,369	1,424

The net interest expense is carried under the overall item "Net interest income/loss"; the other components of the pension costs (current service cost and past service costs and effects from plan settlement) are carried under the personnel costs.

The revaluation effects are carried via the "Other comprehensive income" and are contained in equity in the item "Consolidated retained earnings".

The following parameters, which are based on assumptions, were used to measure the future level of benefits: Table 058

Measurement factors 058

	2018	2017
	€ thou.	€ thou.
Discount rate	1.80 %	1.70 %
Age at expiry of financing	63 years	63 years
Future pension indexation	1.75 %	1.75 %

The discount rates are based on the returns for high-quality corporate bonds with a corresponding term; the 2018 G mortality tables compiled by Heubeck were used as a basis for the biometric parameters (previous year: 2005 G mortality tables). Since the pension commitments are solely at euromicron Group companies in Germany, the parameters relate to the economic situation in Germany.

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If the assumptions vary by +/– 1 percentage point or +/– 1 year, the effects on the DBO are as follows: Table 059

Variation in the assumptions by + / – 1 % or + / – 1 year 059

	2018		2017	
	+ 1 % or + 1 year	– 1 % or – 1 year	+ 1 % or + 1 year	– 1 % or – 1 year
Discount rate	– 13.35 %	16.81 %	– 13.78 %	17.46 %
Life expectancy	2.52 %	– 2.46 %	1.83 %	– 1.84 %
Age at expiry of financing	– 2.38 %	1.77 %	– 2.16 %	1.53 %

A range of +/– 0.25% was used for the future pension trend. Table 060

Variation in assumptions by +/– 0.25 % 060

	2018		2017	
	+ 0.25 %	– 0.25 %	+ 0.25 %	– 0.25 %
Future pension indexation	2.48 %	– 2.36 %	2.50 %	– 2.38 %

As in the previous year, the effects were determined using the same methods as for measurement of the commitment at the end of the year.

The pension payments anticipated in the subsequent year are €972 thousand (previous year: €934 thousand), while the anticipated contributions to the plan cannot be estimated reliably at the balance sheet date.

The weighted average duration of the commitment at the balance sheet date is 15.99 years (previous year: 16.62 years).

Contributions of €7,923 thousand (previous year: €7,743 thousand) were paid to the statutory pension insurance fund as part of defined contribution pension schemes.

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14. Liabilities

The euromicron Group's liabilities have the following terms: Table 061

Liabilities to banks

The interest rates for liabilities to banks and overdrafts are fixed or variable and range from 1.75% to 10.3% (previous year: 1.10% to 8.25%). The high interest rates relate to terms for overdraft lines under individual agreements between subsidiaries and their banks, but are not used or are terminable at short notice (with a view to optimizing financing).

euromicron AG concluded a borrower's note loan with a volume of €20,000 thousand in October 2014. The borrower's note loan consisted of two tranches of €10,000 thousand each, one of which has a variable interest rate and the other has a fixed interest rate. The variable tranche was converted to a maturity loan with the term until March 31, 2021, effective April 1, 2018.

Term of the liabilities 061

	Dec. 31, 2018				Dec. 31, 2017			
	Total	Due in			Total	Due in		
		Up to 1 year	1 to 5 years	More than 5 years		Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities to banks	97,639	58,681	38,958	0	90,549	70,556	19,993	0
Liabilities from finance leases	1,153	363	790	0	1,664	521	1,139	4
Trade accounts payable	48,631	48,631	0	0	46,996	46,996	0	0
Gross amount due to customers for contract work	N/A	N/A	N/A	N/A	2,014	2,014	0	0
Contract liabilities	4,209	4,209	0	0	N/A	N/A	N/A	N/A
Liabilities from current income taxes	1,165	1,165	0	0	1,385	1,385	0	0
Other tax liabilities	3,595	3,595	0	0	4,777	4,777	0	0
Personnel obligations	9,727	9,727	0	0	9,795	9,795	0	0
Other financial liabilities	1,295	1,295	0	0	2,172	1,562	610	0
Other liabilities	2,369	2,255	114	0	3,539	3,369	170	0
Total	**169,783**	**129,921**	**39,862**	**0**	**162,891**	**140,975**	**21,912**	**4**

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The banks retained €80 thousand (0.4%) as the arrangement fee; that expense is split over the agreement's term using the effective interest method. The loan liability was reduced by €80 thousand at the time it was disbursed. When the borrower's note loan was concluded, euromicron AG also paid an incentive fee of €30 thousand; this expense is deferred and distributed over the term of the agreement using the effective interest method. In fiscal 2018, these two circumstances resulted in a pro-rata amount totaling €32 thousand (previous year: €22 thousand), which was recognized in the income statement as an interest expense.

Follow-up financing with a maturity until March 31, 2021, was agreed with the financing partners in March 2018. The agreement specifies contractually stipulated repayments of €2.5 million effective March 31, 2019, and €25.0 million effective January 31, 2020.

So as to ensure its solvency at all times, the euromicron Group maintains a liquidity reserve in the form of short-term credit lines and cash funds. The total unused credit lines and cash funds ("free liquidity") at the end of the year were €23,366 thousand (previous year: €27,495 thousand). We refer to the comments on net financial debt in section 12 (f) "Disclosures on capital management in accordance with IAS 1" for an explanation of the decline in free liquidity.

In principle, the companies in the euromicron Group are financed centrally through euromicron AG.

Liabilities from finance leases

The present value of the liabilities from finance leases and the future interest expense from finance leases are as follows: Tables 062 and 063

Liabilities from finance leases in 2018 062

	Total	Due in		
		Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities from finance leases	1,153	363	790	0
Interest	95	37	58	0
Minimum lease payments	1,248	400	848	0

Liabilities from finance leases in 2017 063

	Total	Due in		
		Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Liabilities from finance leases	1,664	521	1,139	4
Interest	151	61	90	0
Minimum lease payments	1,815	582	1,229	4

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Liabilities from current income taxes

There were liabilities from current income taxes of €1,165 thousand in fiscal 2018 (previous year: €1,385 thousand), of which €833 thousand (previous year: €1,152 thousand) resulted from liabilities for anticipated tax arrears payable as a result of tax audits. Of this, an amount of €255 thousand (previous year: €1,152 thousand) is attributable to euromicron AG, mainly from subsequent effects in connection with securities lending transactions from the tax audit for the years 2010 to 2012. The remainder of €578 thousand (previous year: €0 thousand) is attributable to liabilities from tax audits at other Group companies.

Personnel obligations

The personnel obligations (€9,727 thousand; previous year: €9,795 thousand) are made up of financial obligations totaling €5,996 thousand (previous year: €5,676 thousand) and non-financial obligations totaling €3,731 thousand (previous year: €4,119 thousand). The financial personnel obligations mainly comprise obligations from wages and salaries, severance payments and bonuses. The non-financial personnel obligations mainly comprise obligations from vacation and flexitime credit balances that have been not been used by employees.

Other financial liabilities

The other financial liabilities are composed as follows: Table 064

Other financial liabilities 064

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Obligations from preemptive tender rights	0	523
Purchase price liabilities	0	80
Miscellaneous	0	7
Other noncurrent financial liabilities	**0**	**610**
Customers' monies to be passed on	1	126
Dividend/profit shares for minority interests	184	182
Obligations from preemptive tender rights	774	251
Purchase price liabilities	–	575
Liability from the continuing involvement	210	312
Miscellaneous	126	116
Other current financial liabilities	**1,295**	**1,562**
Total of other financial liabilities	**1,295**	**2,172**

In the euromicron Group, financial liabilities from the put option for the remaining shares in KORAMIS GmbH not held by telent GmbH, which are carried under "Obligations from preemptive tender rights", are measured at fair value. Changes to fair value are carried in the period they occur in the income statement. All other financial liabilities are assigned to the category "Other financial liabilities at amortized cost" at the balance sheet date and measured at amortized costs using the effective interest method. Loan commission, which is not included as a transaction cost as part of the effective interest method, totaled €123 thousand (previous year: €314 thousand) and was recognized in the income statement.

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Other liabilities

The other liabilities are composed as follows: Table 065

Other liabilities 065

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Liabilities from rent smoothing	114	160
Liabilities from retained security	0	10
Other liabilities (noncurrent)	**114**	**170**
Payments on account*	0	1,009
Liabilities from social security (incl. mutual indemnity association)	1,044	1,007
Deferred income	614	767
Liabilities from compensation for members of the Supervisory Board	137	135
Liabilities from rent smoothing	31	31
Miscellaneous	429	420
Other current liabilities	**2,255**	**3,369**
Total for other liabilities	**2,369**	**3,539**

* Carried in 2018 under "Contract liabilities"

15. Deferred tax liabilities

In accordance with IAS 12.39, no deferred tax liabilities were recognized on taxable temporary differences between the shares in subsidiaries compared with the tax carried of €1,161 thousand (previous year: €823 thousand), since euromicron AG is able to control the time at which the differences are reversed and it is likely that the temporary differences will not be reversed in the foreseeable future ("outside basis differences").

The deferred tax liabilities result from measurement differences in the following balance sheet items: Table 066

Deferred tax liabilities 066

	Dec. 31, 2018	Dec. 31, 2017
	€ thou.	€ thou.
Intangible assets	9,664	8,743
Property, plant and equipment	759	948
Inventories	11	15
Other receivables and other assets	28,510	27,916
Provisions	678	586
Other liabilities	2	9
Total before netting off	**39,624**	**38,217**
Netting off	–36,900	–32,619
Total after netting off	**2,724**	**5,598**

There are long-term deferred tax liabilities (after netting off) totaling €1,886 thousand (previous year: €3,198 thousand); as in the previous year, they result from deferred tax liabilities on measurement differences for intangible assets and property, plant and equipment.

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16. Sales

The sales are composed as follows: Table 067

Composition of sales 067

	2018	2017
	€ thou.	€ thou.
Type of business		
Revenue from project business	162,416	180,417
Revenue from the sale of goods	105,521	100,144
Revenue from the provision of services	50,075	52,347
	318,012	**332,908**
Fulfillment of the performance obligation and recognition of the sales		
Recognition at a specific point in time	105,521	N/A
Recognition over time	212,491	N/A

As part of project business, €2,273 thousand was included in the balance of the contract liabilities at the beginning of the period.

The table below presents the unfulfilled performance obligations from contracts with customers and anticipated revenue to be recognized from them: Table 068

Revenue recognition from remaining performance obligations 068

	Project business	Sales of goods	Services	Total
	€ thou.	€ thou.	€ thou.	€ thou.
Recognition				
within one year	62,111	30,495	20,312	112,918
within one to two years	26,328	158	3,965	30,451
after two years and more	1,614	0	4,155	5,769
Total	**90,053**	**30,653**	**28,432**	**149,138**

We refer to the segment reporting in section 29 for a breakdown of sales by segment.

17. Own work capitalized

Own work capitalized totals €3,362 thousand (previous year: €3,389 thousand) and results to an amount of €2,770 thousand (previous year: €2,705 thousand) from capitalization of development costs, to an amount of €54 thousand (previous year: €130 thousand) from own work capitalized for software and IT solutions and to an amount of €538 thousand (previous year: €554 thousand) from own work capitalized for property, plant and equipment.

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18. Other operating income

The other operating income is composed as follows: Table 069

Other operating income 069

	2018	2017
	€ thou.	€ thou.
Foreign currency gains	384	673
Income from property and rent	235	248
Income from derecognition of value-added tax liabilities	166	0
Income from the reversal of a conditional purchase price payment	155	0
Compensation paid from insurance	134	179
Income from derecognition of liabilities	105	0
Income from claims for reimbursement of litigation and legal costs	99	0
Reduction in allowances for doubtful accounts	63	474
Refunds for health insurance/reintegration/passed-on charges	55	113
Income from retirement of noncurrent assets	29	60
Income from payment of damages	17	14
Income from public funding	13	0
Income from cash received from written-down receivables	3	24
Miscellaneous	321	405
Total	**1,779**	**2,190**

19. Cost of materials

The cost of materials is composed as follows: Table 070

Cost of materials 070

	2018	2017
	€ thou.	€ thou.
Cost of raw materials and supplies and goods purchased	109,876	118,949
Cost of purchased services	55,236	53,483
Total	**165,112**	**172,432**

20. Personnel costs

The personnel costs are composed as follows: Table 071

Personnel costs 071

	2018	2017
	€ thou.	€ thou.
Wages and salaries	96,604	95,257
Social security	17,700	17,294
Total	**114,304**	**112,551**

Average number of employees per year at the Group: Table 072

Employees 072

	2018	2017
Hourly-paid employees	929	905
Salaried employees	917	863
Trainees	71	65
Total	**1,917**	**1,833**

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21. Other operating expenses

Other operating expenses are composed as follows: Table 073

Other operating expenses 073

	2018	2017
	€ thou.	€ thou.
Vehicle and travel expenses	12,535	12,458
Rent/room costs, including ancillary costs of tenancy	7,316	7,205
Legal and consulting costs	5,790	5,708
IT costs	2,865	2,497
Cost of goods consignment	2,172	2,454
Trade fair/advertising costs	1,910	1,717
Commission	1,414	1,053
Communication expenses	1,253	1,665
Running costs	914	837
Further training costs	782	1,003
Foreign currency losses	468	936
Maintenance and repair	464	589
Administrative expenses	374	390
Personnel leasing	265	859
Expenses incidental to monetary transactions	96	114
Allocation of allowances for receivables	48	612
Losses of receivables	27	100
Loss from deconsolidation of euromicron NBG Fiber Optics GmbH	0	70
Write-down of current assets/telecommunications business	0	238
Miscellaneous	2,488	2,884
Total	**41,181**	**43,389**

22. Depreciation/amortization

Amortization and depreciation is composed as follows: Table 074

Depreciation/amortization 074

	2018	2017
	€ thou.	€ thou.
Amortization of intangible assets	4,512	4,380
of which write-downs	65	150
Depreciation of tangible assets	5,124	4,025
of which write-downs	0	0
Total	**9,636**	**8,405**

Intangible assets were written down by an amount of €65 thousand in fiscal 2018 (previous year: €150 thousand). In the previous year, intangible assets (before deferred taxes) totaling €144 thousand were identified and carried as part of purchase price allocation in the company acquisitions/acquisitions of business operations in fiscal 2017. The amortization and depreciation for this in fiscal 2018 was €65 thousand.

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23. Net interest income/loss and other financial income and expenses

Net interest/income loss is composed as follows: Table 075

Net interest income/loss 075

	2018	2017
	€ thou.	€ thou.
Interest income	23	313
Interest expenses	–6,282	–4,943
Net interest income/ loss	**–6,259**	**–4,630**

The total interest income and expense for financial assets and financial liabilities calculated using the effective interest method and measured at amortized costs are shown in the table below: Table 076

Total interest revenue and expense 076

	2018	2017
	€ thou.	€ thou.
Total interest expense	–5,946	–4,483
Total interest income	12	213

The other financial expenses (€34 thousand; previous year: €219 thousand) comprise the cost from the impairment to the value of assets measured at fair value through profit or loss (shares in Track Group Inc.: €33 thousand; previous year: €212 thousand) and the decline in value of the call option on the minority interests in KORAMIS GmbH (€1 thousand; previous year: €7 thousand).

24. Income taxes

In fiscal 2018, an increase in deferred tax assets totaling €44 thousand (previous year: a reduction of €2 thousand) was recognized directly in equity. As in the previous year, it results in 2018 solely from deferred tax assets that had to be recognized in the other comprehensive income as part of the application of IAS 19 R. In 2018 there are no deferred taxes that were taken directly to equity from company acquisitions (previous year: €43 thousand). Application of the net interest method resulted in the year under review in deferred tax expenses of €89 thousand (previous year: €88 thousand) which did not result in recognition of deferred tax liabilities in the balance sheet, since there was a balancing entry in the other comprehensive income.

The income taxes are composed as follows: Table 077

Income taxes 077

	2018	2017
	€ thou.	€ thou.
Current taxes in Germany	–755	1,309
Deferred taxes in Germany	4,794	–2,648
Current taxes abroad	–1,281	–1,047
Deferred taxes abroad	138	2,431
Total	**2,896**	**45**

The items "Current taxes in Germany" and "Current taxes abroad" (totaling € –2,036 thousand; previous year: €262 thousand) include income tax expenses for previous years of €804 thousand (previous year: €356 thousand) and tax income for previous years of €81 thousand (previous year: €1,878 thousand). They are mainly due to effects from tax audits.

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The table below presents a reconciliation of the tax expense expected in the fiscal year to the tax expense actually disclosed. Table 078

Tax reconciliation 078

	2018	2017
	€ thou.	€ thou.
Income before income taxes	–14,043	–3,551
Expected tax expense	–4,213	–1,065
Non-deductible expenses	281	270
Tax expenses/income not related to the period	723	–1,503
Effect from adjustment of deferred taxes formed in previous years on loss carryforwards/temporary differences	36	1,635
Non-recognition of deferred taxes on losses of the current year	586	607
Effect from write-downs with no impact on taxes	10	68
Effects of different national tax rates	71	–26
Recognition of deferred taxes on loss carryforwards (not recognized in previous periods)	–305	–6
Deferred taxes on temporary differences that have not been recognized up to now	–107	0
Miscellaneous	22	–25
Actual tax expense	–2,896	–45
Effective tax expenses (–) / tax income (+)	**20.6%**	**1.3%**

As in the previous year, the expected tax expense is calculated from a total tax rate of 30.00% and the income before taxes. The total tax rate is calculated from a corporation income tax rate, including solidarity surcharge, of 15.825% and the effective average trade tax rate of 14.175%.

25. Share of non-controlling interests in consolidated net income for the period

The consolidated net income for the period for non-controlling interests relates solely to Qubix S.p.A., Padua, Italy (10%). The non-controlling interests should be regarded as not being material in relation to the consolidated financial statements.

26. Earnings per share

Undiluted earnings per share are calculated as follows: Table 079

Undiluted earnings per share 079

	2018	2017
Earnings for euromicron AG shareholders in € thousand	–11,466	–3,769
Weighted average number of shares issued	7,176.398	7,176.398
Undiluted earnings per share in €	**–1.60**	**–0.53**

The earnings for euromicron AG shareholders correspond to the consolidated net loss for the year minus the earnings for non-controlling interests.

The method of calculating diluted earnings per share is basically the same as that for calculating undiluted earnings per share. However, the quantities included in the calculation must also be adjusted for all equity dilution effects resulting from potential shares. There was no dilution effect at the time the consolidated financial statements were prepared. As a result, both figures are the same.

Appropriation of net income

The annual financial statements of euromicron AG at December 31, 2018, in accordance with the German Commercial Code (HGB) disclose net accumulated losses of € –69,988,648.22 (previous year: € –43,251,861.92).

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27. Notes on the statement of cash flows

The cash provided by operating activities in fiscal 2018 was €3,346 thousand (previous year: cash used of € –1,560 thousand). However, comparison of these figures is not meaningful due to effects from factoring (change in the volume of factoring used at the balance sheet date, the receivables from retained factoring monies and the liabilities from customers' monies to be passed on). A detailed presentation of these effects can be found in section 2.3 "Net assets, financial position and results of operations", subsection "Financial position", in the group management report. Aggregated reconciliation with a cash flow from operating activities adjusted for factoring effects supplies the following comparative figures: Table 080

Adjusted cash flow 080

	Cash flow from operating activities in acc. with the statement of cash flows	Effects from factoring and customers' monies to be passed on included in the above	Adjusted cash flow from operations
	€ thou.	€ thou.	€ thou.
2017	–1,560	1,946	386
2018	**3,346**	**4,184**	**7,530**

After adjustment for factoring effects, there is net cash provided by operating activities in fiscal 2018 totaling €7,530 thousand (previous year: €386 thousand). The cash flow from operating activities in fiscal 2018 thus rose sharply by €7,144 thousand over the previous year. Coupled with a reduction in EBITDA of € –7,617 thousand and a € –651 higher cash outflow from the balance of paid and received income taxes and interest, this is attributable to an amount of €16,245 thousand to effects from the change in working capital: Whereas the slight increase in working capital resulted in negative cash flow effects of € –2,485 thousand in 2017, the cash flow for 2018 was influenced positively by an amount of €13,760 thousand by the decrease in working capital. There were also negative effects of € –833 thousand from the change in other items.

Under the contractual trust agreement, additional trade accounts receivable of €474 thousand were contributed to the plan assets in fiscal 2018. The contributed receivables increased by €165 thousand in the previous year.

Net cash used in investing activities is derived from the net cash from the disposal of assets and the net cash used for investments in property, plant and equipment and intangible assets, as well as company acquisitions. The net cash used in the fiscal year was € –7,803 thousand or €5,668 thousand lower than in the previous year (€ –13,471 thousand). This is mainly the result of lower net cash used in purchasing property, plant and equipment (€ –3,636 thousand; previous year: € –6,380 thousand) and in purchasing intangible assets (€ –3,737 thousand; previous year: € –4,410 thousand). The net cash used in investing ativities was also reduced by a decrease of € –1,548 thousand in net cash used in company acquisitions and due to the fact there were no longer any effects from prior years from the disposal of subsidiaries and other business units (€ –701 thousand).

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The net cash provided by financing activities in fiscal 2018 was €6,056 thousand (previous year: €13,141 thousand). The net cash inflow in fiscal 2018 was mainly due to the raising of new loans, which exceeded the net cash used to repay loans by €6,692 thousand (previous year: net cash inflow of €13,945 thousand). On the other hand, there were cash repayments of liabilities from finance leases totaling € –511 thousand (previous year: € –525 thousand) and distributions to non-controlling shareholders and from profit shares of minority interests totaling € –125 thousand (previous year: € –279 thousand).

The table below presents the reconciliation of the changes in debt with the cash flows from financing activities: Table 081

Reconciliation of the changes in debt with the cash flows from financing activities 081

	Note	Liabilities to banks	Liabilities from finance leases	Other financial liabilities	Total
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Balance sheet as of January 1, 2018		**90,549**	**1,664**	**2,172**	**94,385**
Changes in the cash flow from financing activities					
Proceeds from raising of financial loans	(23)	12,590	0	0	12,590
Cash repayments of financial loans	(23)	–5,898	0	0	–5,898
Cash repayments of liabilities from finance leases	(23)	0	–511	0	–511
Distributions to/withdrawals by non-controlling interests and profit shares of minority interests	(3)	0	0	–125	–125
Total change in the cash flow from financing activities		**6,692**	**–511**	**–125**	**6,056**
Changes from the acquisition of subsidiaries and other business operations	(3)	**0**	**0**	**0**	**0**
Other changes					
Addition of liabilities from accrued interest due to banks	(9)	350	0	0	350
Disposal of liabilities from purchase price payments due to derecognition	(3, 9)	0	0	–155	–155
Disposal of customers' monies to be passed on due to factoring	(3, 9)	0	0	–125	–125
Disposal of liabilities from preemptive tender rights and purchase price payments due to exercise of rights/options	(3, 9)	0	0	–500	–500
Addition from adopted distributions to non-controlling shareholders		0	0	150	150
Effects from accrued interest on options	(3)	0	0	1	1
Other effects (accumulated)	(9)	48	0	–123	–75
Total for other changes		**398**	**0**	**–752**	**–354**
Balance sheet as of December 31, 2018		**97,639**	**1,153**	**1,295**	**100,087**

Continuation of the reconciliation of the changes in debt with the cash flows from financing activities, table 081 on P. 142

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Continuation of the reconciliation of the changes in debt with the cash flows from financing activities, table 081

Reconciliation of the changes in debt with the cash flows from financing activities

081

	Note	Liabilities to banks	Liabilities from finance leases	Other financial liabilities	Total
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Balance sheet as of January 1, 2017		**76,501**	**1,309**	**1,774**	**79,584**
Changes in the cash flow from financing activities					
Proceeds from raising of financial loans	(23)	18,720	0	0	18,720
Cash repayments of financial loans	(23)	–4,775	0	0	–4,775
Cash repayments of liabilities from finance leases	(23)	0	–525	0	–525
Distributions to/withdrawals by non-controlling interests and profit shares of minority interests	(23)	0	0	–279	–279
Total change in the cash flow from financing activities		**13,945**	**–525**	**–279**	**13,141**
Changes from the acquisition of subsidiaries and other business operations	(3)	**59**	**0**	**0**	**59**
Other changes					
Addition of liabilities from new finance lease agreements	(9)	0	880	0	880
Addition of liabilities from preemptive tender rights and purchase price payments	(3, 9)	0	0	878	878
Fair value changes in liabilities from preemptive tender rights	(3, 9)	0	0	–200	–200
Disposal of liabilities from preemptive tender rights and purchase price payments due to exercise of rights/options	(3, 9)	0	0	–251	–251
Addition from adopted distributions to non-controlling shareholders		0	0	125	125
Effects from accrued interest on options	(3)	0	0	14	14
Other effects (accumulated)	(9)	44	0	111	155
Total for other changes		**44**	**880**	**677**	**1,601**
Balance sheet as of December 31, 2017		**90,549**	**1,664**	**2,172**	**94,385**

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28. Other financial obligations, contingent assets and contingent liabilities

(a) Contingencies

The euromicron Group does not have any contingencies in favor of third parties.

(b) Other financial obligations

There are the following other financial obligations on the balance sheet date: Table 082

Other financial obligations in 2018 — 082

	Total	Up to 1 year	1 to 5 years	More than 5 years
	€ thou.	€ thou.	€ thou.	€ thou.
Bill commitments	3,287	3,287	0	0
Operating lease	24,662	7,463	15,242	1,958
Purchase obligation	38,453	38,295	158	0
Total	**66,403**	**49,045**	**15,400**	**1,958**
Previous year	**48,136**	**31,161**	**14,542**	**2,433**

The purchase obligation relates to orders for order-related goods and services; orders of intangible assets or tangible assets were insignificant.

Obligations as part of operating lease agreements comprise the future minimum lease payments from unterminable agreements and mainly relate to rental and leasing agreements for operating and office equipment, such as cars, office machines or PC workstations, and communications technology; these obligations total €24,662 thousand (previous year: €24,883 thousand). In fiscal year 2018, payments from these leasing relationships totaling €10,250 thousand (previous year: €9,411 thousand) were recognized in the income statement. Conditional lease payments of €38 thousand (previous year: €25 thousand) were recognized.

(c) Contingent claims

In fiscal year 2017, the company took legal action to claim damages totaling €4.2 million from a former Executive Board member due to breaches of duty. Due to uncertainty as to when they might arise and their amount, these contingent claims were not recognized at December 31, 2018.

The Executive Board member in question disputes the claims and has brought a cross-action claiming compensation of €1.6 million for unfair dismissal. Based on the assessment of external lawyers, who consider the dismissal to be effective and the claims of the former Executive Board member to be unjustified, this contingent liability has not been recorded in the balance sheet to date. The possible risk of the claims being payable is assessed as low.

In the fiscal year, there are also contingent claims totaling €661 thousand (previous year: €0 thousand) from subsidiaries, mainly from legal action.

(d) Contingent liabilities

In fiscal year 2018, there was a contingent liability in connection with securities lending transactions. There is also a risk that amounts of tax withheld as part of dividend payments (capital gains tax and solidarity surcharge) might no longer be able to be offset by euromicron AG due to the change in jurisdiction on the issue of securities lending transactions. This would result in payment of tax arrears of €5.8 million plus interest. An appeal has been lodged and suspension of execution applied for. The fiscal authorities granted the suspension of execution. In addition, this issue means that euromicron AG has contingent claims to the same amount due to claims from rights of recourse against the securities lender and former board members of euromicron AG, which are currently being asserted by means of legal action. All in all, the Executive Board does not therefore expect a negative impact on the Group's liquidity as a result of this matter.

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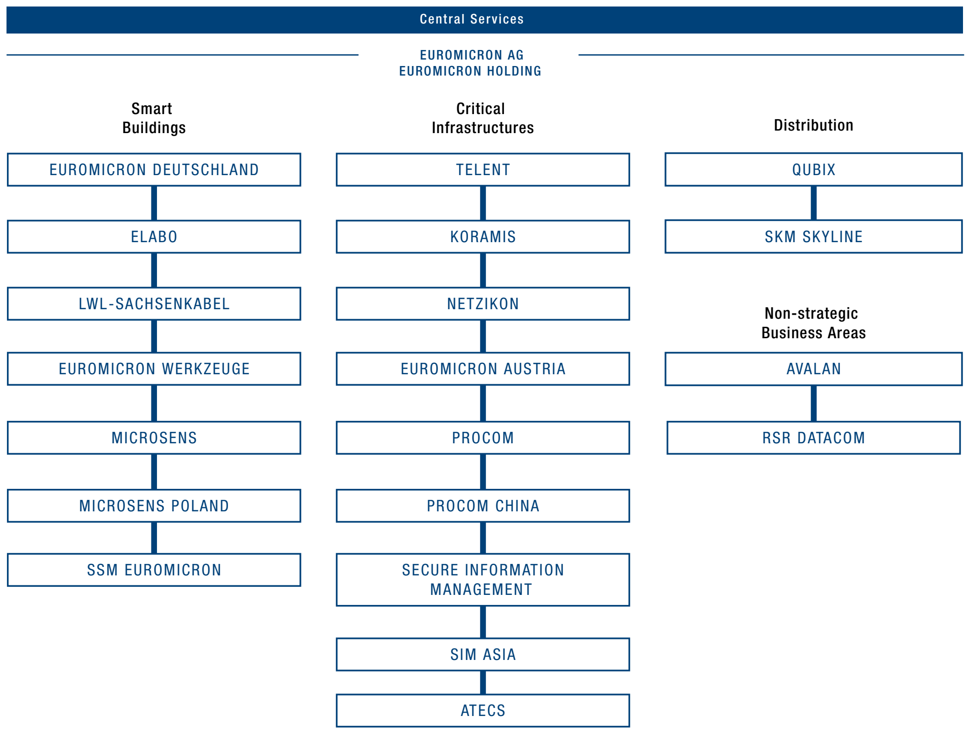
There are also contingent liabilities at subsidiaries totaling €175 thousand (previous year: €0 thousand) from legal disputes in fiscal year 2018.

29. Segment reporting

The Executive Board is the main decision-maker in the Group. The business segments were identified on the basis of the internal reporting the Executive Board uses to allocate resources and assess earnings strength.

Under its strategic alignment, the euromicron Group focuses on the three main business areas of "Smart Buildings", "Critical Infrastructures" and "Distribution". Controlling and the reporting structure are in line with the orientation toward the target markets and the underlying value chain within the Group.

Segment reporting



Description of the segments:
All the activities of the euromicron Group in the target markets of "Digital Buildings" and "Smart Industry" are pooled in the **Smart Buildings** segment.

In the target market of "Digital Buildings", euromicron provides infrastructure-related intelligent solutions, such as "Smart Office", "Smart Energy" or "Smart Lighting". Services relating to building or process automation, light control, access control, video surveillance, fire prevention or support services as part of efficient energy and building management are planned, implemented and operated as part of that.

The focus in the target market of "Smart Industry" is on digitizing and networking development, production and service processes in industry. The euromicron Group develops holistic approaches and the related processes for and with its customers and implements them in a forward-looking way that protects investments.

This segment also includes services relating to the equipment of data centers with innovative connector systems.

The **"Critical Infrastructures"** segment deals with vital business infrastructures whose failure is highly problematic. Such infrastructures may be the digital mobile radio system at an airport or the communications network of Deutsche Bahn or a power utility, for example. System integration comprises the planning, production and operation of digitized critical infrastructures. In addition, the technology manufacturing companies in this segment round out the product portfolio in this target market with their professional video, audio and special technology solutions for sensitive security restricted areas.

The **"Distribution"** segment advises and supplies customers in a vendor-independent manner in all matters relating to active and passive network components in the fiber-optic and copper arena.

"All other segments" consists of the "Non-strategic Business Areas" and "Central Services".

The Non-strategic Business Areas include the business units that have been identified by the Executive Board as no longer being of relevance at Avalan GmbH (in liquidation), RSR Datacom Verwaltungs GmbH and RSR Datacom GmbH & Co. KG, whose business operations were discontinued.

The "Central Services" area mainly includes euromicron AG as the strategic management holding company. euromicron AG also pools the corporate departments of financing, group controlling and accounting, taxes, legal affairs, human resources, purchasing, IT, corporate marketing, investor relations and innovation management, which act as service providers within the Group.

The reconciliation contains the consolidation of the cross-segment network of services and various other items that cannot be assigned to the individual areas, since the Executive Board believes they do not reflect the services provided by the areas.

Control factors

The Executive Board assesses the earnings strength of the business segments on the basis of new orders, operating EBITDA and the operating EBITDA margin (operating EBITDA relative to sales). Operating EBITDA excludes effects from one-off expenses in the business segments, such as special costs (previous year: reorganization costs) due to personnel measures. Apart from these key figures, sales and the working capital ratio (working capital used relative to sales) are the most important control factors.

The sales and earnings, as well as the current assets and liabilities included in the working capital, that are reported to the main decision-maker are measured in accordance with the same principles and standards as in euromicron's consolidated financial statements. Transactions within and between the segments are reflected at market prices.

The working capital is calculated from the total of inventories, trade accounts receivable and contract assets (previous year: gross amount due from customers for contract work) minus trade accounts payable and contract liabilities (previous year: gross amount due to customers for contract work and received prepayments). Table 083

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Segment reporting

of the euromicron Group for the period January 1 to December 31, 2018 (IFRS)

Segment reporting 083

	Smart Buildings		Critical Infrastructures		Distribution		Total for all reportable operating segments	
	2018	2017	2018	2017	2018	2017	2018	2017
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
External sales	172,635	190,021	120,047	119,706	25,101	22,448	317,783	332,175
Sales within the Group	1,017	1,902	793	1,280	870	1,105	2,680	4,287
Total sales	**173,652**	**191,923**	**120,840**	**120,986**	**25,971**	**23,553**	**320,463**	**336,462**
EBITDA	–1,285	5,981	5,450	6,829	4,963	3,988	9,128	16,798
EBITDA margin	–0.7 %	3.1 %	4.5 %	5.6 %	19.1 %	16.9 %	2.8 %	5.0 %
of which special costs	1,420	915	0	0	0	0	1,420	915
Operating EBITDA	**135**	**6,896**	**5,450**	**6,829**	**4,963**	**3,988**	**10,548**	**17,713**
Operating EBITDA margin	**0.1 %**	**3.6 %**	**4.5 %**	**5.6 %**	**19.1 %**	**16.9 %**	**3.3 %**	**5.3 %**
Amortization and depreciation	–5,744	–5,162	–3,369	–2,491	–157	–313	–9,270	–7,966
Write-downs of property, plant and equipment, intangible assets and goodwill	–65	–150	0	0	0	0	–65	–150
EBIT	–7,094	669	2,081	4,338	4,806	3,675	–207	8,682
of which special costs (previous year: reorganization costs)	1,420	915	0	0	0	0	1,420	915
Operating EBIT	–5,674	1,584	2,081	4,338	4,806	3,675	1,213	9,597
Order books	82,713	75,764	64,115	49,077	2,160	1,863	148,988	126,704
New orders	179,551	205,271	131,744	113,620	25,400	22,305	336,695	341,196
Working capital	41,085	54,054	6,407	6,560	3,424	3,654	50,916	64,268
Working capital ratio	**23.7 %**	**28.2 %**	**5.3 %**	**5.4 %**	**13.2 %**	**15.5 %**	**15.9 %**	**19.1 %**

→ Continuation of table 083 on P. 147

Continuation of table 083

Segment reporting

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	All other segments									
	Non-strategic Business Areas		Central Services		Total for the segments		Reconciliation		Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
External sales	229	733	0	0	318,012	332,908	0	0	318,012	332,908
Sales within the Group	2	85	0	0	2,682	4,372	−2,682	−4,372	0	0
Total sales	**231**	**818**	**0**	**0**	**320,694**	**337,280**	**−2,682**	**−4,372**	**318,012**	**332,908**
EBITDA	−258	−443	−6,951	−6,852	1,919	9,503	−33	0	1,886	9,503
EBITDA margin					0.6 %	2.8 %			0.6 %	2.9 %
of which special costs	258	341	2,931	2,727	4,609	3,983	0	0	4,609	3,983
Operating EBITDA	**0**	**−102**	**−4,020**	**−4,125**	**6,528**	**13,486**	**−33**	**0**	**6,495**	**13,486**
Operating EBITDA margin					**2.0 %**	**4.0 %**			**2.0 %**	**4.1 %**
Amortization and depreciation	−2	−1	−299	−288	−9,571	−8,255	0	0	−9,571	−8,255
Write-downs of property, plant and equipment, intangible assets and goodwill	0	0	0	0	−65	−150	0	0	−65	−150
							0			
EBIT	−260	−444	−7,250	−7,140	−7,717	1,098	−33	0	−7,750	1,098
of which special costs (previous year: reorganization costs)	260	341	2,931	2,727	4,611	3,983	0	0	4,611	3,983
Operating EBIT	0	−103	−4,319	−4,413	−3,106	5,081	−33	0	−3,139	5,081
Order books	280	601	0	0	149,268	127,305	−129	−210	149,139	127,095
New orders	−93	11	0	0	336,602	341,207	0	0	336,602	341,207
Working capital	−230	−300	−1,788	−1,385	48,898	62,583	−20,226	−19,604	28,672	42,979
Working capital ratio					**15.2 %**	**18.6 %**			**9.0 %**	**12.9 %**

The table below presents a breakdown of the revenue from contracts with customers in accordance with IFRS 15 "Revenue from Contracts with Customers": Table 084

Breakdown of revenue by type of customer 084

	Reportable operating segments					
	Smart Buildings	Critical Infrastructures	Distribution	**Total for all reportable operating segments**	All other business areas and reconciliations	**Group**
	€ thou.	€ thou.	€ thou.	**€ thou.**	€ thou.	**€ thou.**
Sales of the segment	173,652	120,840	25,971	**320,463**	–2,451	**318,012**
Type of business						
Revenue from project business	97,950	65,466	0	**163,416**	–1,000	**162,416**
Revenue from the sale of goods	56,685	24,192	25,971	**106,848**	–1,327	**105,521**
Revenue from the provision of services	19,017	31,182	0	**50,199**	–124	**50,075**
Fulfillment of the performance obligation and recognition of the sales						
Recognition at a point in time	56,685	24,192	25,971	**106,848**	–1,327	**105,521**
Recognition over time	116,967	96,648	0	**213,615**	–1,124	**212,491**

Explanation of selected items

The reconciliation with the working capital item includes offsetting and netting off of the plan assets, consisting of trade accounts receivable, with the relevant provisions for pensions. For an explanation of the composition of the special costs (previous year: reorganization costs), we refer you to our comments in the management report (section 2.2 "Course of business", subsection "Development of the segments", and section 2.3 "Net assets, financial position and results of operations", subsection "Results of operations").

Sales by region

Sales in Germany were €264.5 million (previous year: €277.8 million), in the Euro zone €37.9 million (previous year: €37.3 million) and in the rest of the World €15.6 million (previous year: €17.8 million). The sales relate to the geographical location of the customers.

Sales by customer

There are sales exceeding the thresholds defined by IFRS 8.34 with one customer (previous year: one customer). These sales total €38,663 thousand (previous year: €33,857 thousand) and were generated in the segments "Smart Buildings", "Critical Infrastructures" and "Non-strategic Business Areas".

Noncurrent assets

In accordance with IFRS 8.33b, noncurrent assets are €121,120 thousand in Germany (previous year: €121,186 thousand), €24,051 thousand (previous year: €24,727 thousand) in other European countries, and €430 thousand (previous year: €648 thousand) in non-European countries. They are composed of:

- Goodwill
- Intangible assets
- Property, plant and equipment
- Other financial assets
- Other assets

30. Financial instruments

The following presents the carrying amounts and fair values by class of financial instruments and the carrying amounts by the measurement categories of IFRS 9 at December 31, 2018, and of IAS 39 at December 31, 2017: Tables 085 and 086

Classification of financial instruments and their fair value at December 31, 2018 — 085

	Carrying amount for each measurement category: Financial assets		Financial liabilities				
	Fair value through profit or loss	Amortized cost	Fair value through profit or loss	Amortized cost	Not in scope of IFRS 7	Carrying amount at Dec. 31, 2018	Fair value at Dec. 31, 2018
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Assets							
Cash and cash equivalents	0	6,553	0	0	0	6,553	1)
Trade accounts receivable	1,051	10,886	0	0	0	11,937	1)
Contract assets	0	0	0	0	40,755	40,755	1)
Other financial assets	25	4,569	0	0	303	4,897	1)
Equity and liabilities							
Trade accounts payable	0	0	0	48,631	0	48,631	1)
Liabilities to banks	0	0	0	97,639	0	97,639	97,547
Other financial liabilities	0	0	523	772	0	1,295	1,292
Financial personnel obligations	0	0	0	5,996	0	5,996	1)
Liabilities from finance leases	0	0	0	0	1,153	1,153	1)

Classification of financial instruments and their fair value at December 31, 2017 — 086

	Value carried in the balance sheet acc. to IAS 39: Measurement category acc. to IAS 39	Amortized acquisition cost	Acquisition cost	Fair value recognized in profit or loss	Fair value recognized directly in equity	Carrying amount at Dec. 31, 2017	Fair value at Dec. 31, 2017
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Assets							
Cash and cash equivalents	LaR [2]	0	4,954	0	0	4,954	1)
Trade accounts receivable	LaR [2]	8,994	0	0	0	8,994	1)
Gross amount due from customers for contract work	LaR [2]	52,518	0	0	0	52,518	1)
Other financial assets [5]	AfS [3]	0	0	0	0	4,130	1)
	LaR [2]	3,910	0	0	55		
	FVtPoL [4]	0	0	0	0		
	IAS 17	162	0	3	0		
Equity and liabilities							
Trade accounts payable	FLAC [6]	46,996	0	0	0	46,996	1)
Liabilities to banks	FLAC [6]	90,549	0	0	0	90,549	90,600
Gross amount due to customers for contract work	FLAC [6]	2,014	0	0	0	2,014	1)
Other financial liabilities	FLAC [6]	1,494				2,172	
	FVtPoL [4]		0	678	0		1)
Financial personnel obligations	FLAC [6]	5,676	0	0	0	5,676	1)
Liabilities from finance leases	IAS 17	1,664	0	0	0	1,664	1)

[1] The carrying amount corresponds approximately to the fair value.
[2] LaR = Loans and receivables.
[3] AfS = Available-for-sale financial assets.
[4] FVtPoL = At fair value through profit or loss.
[5] The continuing involvement (€301 thousand) carried in the other financial assets is not included in the table, since this cannot be assigned to the categories defined by IAS 39.
[6] FLAC = Financial Liabilities Measured at Amortised Cost.

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The reconciliation of financial instruments by measurement categories from December 31, 2017, with January 1, 2018, is presented in section 2.1.

Financial instruments are measured at fair value in accordance with IFRS 13 on three levels:

Level 1: Input factors in level 1 are (not adjusted) prices listed for identical assets or liabilities in active markets to which the company has access on the measurement date.

Level 2: Input factors in level 2 are market price listings other than those stated in level 1 which can be observed either directly or indirectly for the asset or liability.

Level 3: Input factors in level 3 are input factors that cannot be observed for the asset or liability.

The level model was applied for measuring the financial instruments reported at fair value at the euromicron Group. The fair values of the shares in Track Group Inc. (balance sheet item: "Other financial assets") were measured on the basis of level 1, since the share price can be observed on an active market.

The fair values for the fixed-interest long-term debt presented in section 14 "Liabilities" were measured on the basis of level 2. The fair value is derived from the present values of the future interest payments and repayments, discounted at the current market interest rates, taking into account the credit risk of euromicron AG.

The liabilities from the opposite put/call options for the remaining shares in MICROSENS GmbH & Co. KG and Microsens Beteiligungs GmbH not held by euromicron were measured on the basis of level 3. They are carried as "Obligations from preemptive rights" under the other current financial liabilities.

The liabilities from the put/call option for the remaining shares in KORAMIS GmbH not held by telent GmbH were measured on the basis of level 3. The Black-Scholes formula was used to determine the fair value of the put/call options. The main model parameters are the value of the underlying instrument, the exercise price, the anticipated volatility of the underlying instrument, any dividend payments, the risk-free interest rate, and the anticipated remaining term. The liability from the put option (€523 thousand) is carried as "Obligations from preemptive tender rights" under the other current financial liabilities. The call option (€2 million) is carried under the other current financial assets.

The liabilities from the earn-out clauses under the agreement to purchase the business operations of Elektroanlagen GmbH Dollenchen & Co. KG were measured on the basis of level 3 and were derecognized effective December 31, 2018.

In fiscal year 2018, there were no further changes to the fair value of assets or liabilities assigned to level 3 of the fair value hierarchy.

The changes in fair value for the financial liabilities assigned to level 3 are shown in the table below: Table 087

Changes in fair value for the 3rd level financial liabilities 087

	Earn-out liabilities (asset deal Elektroanlagen GmbH Dollenchen & Co. KG) "Purchase price liabilities" under the other financial liabilities
	€ thou.
Balance at January 1, 2018	**155**
Derecognition of the purchase price liability	– 155
Balance at December 31, 2018	**0**

There were no transfers between the levels during the fiscal year. There is no collateral received for financial instruments at the euromicron Group.

Net gains and losses from financial instruments for the measurement categories at the euromicron Group are presented in the following: Table 088

Net gains and losses on financial instruments 088

	2018	2017
	€ thou.	€ thou.
Financial assets measured at amortized cost	– 16	129
Financial assets measured at fair value through profit or loss*	– 33	– 219
Financial liabilities measured at fair value through profit or loss	0	200
Financial liabilities measured at amortized cost	– 6,125	– 4,771

* Carried in 2017 to an amount of € –212 thousand under the category "Available-for-sale financial assets" of IAS 39.

The net gains and losses from financial instruments comprise measurement gains and losses, discount amortization, the recognition of expenses and income from impairment, gains and losses from currency translation and interest.

31. Financial risk management

The following section explains the euromicron Group's situation as regards financial risks and how they might influence the Group's financial position, net assets and results of operations.

Market risks

The market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in market prices. The market risk comprises three types of risk:

a) Risk of change in interest rates,

b) Foreign currency risk and

c) Other prices risks that are of minor importance at the euromicron Group.

The financial instruments exposed to market risks include loans, debt instruments and equity instruments.

In principle, the euromicron Group is dependent on economic trends in the Euro zone; the German market accounts for 83.2% (previous year: 83.4%) of sales and so is crucial to the Group's success. Germany is also the area of activity of most of the euromicron Group's operating units, which are benefiting from investments in communications, security and data networks. Apart from economic risks, euromicron is subject to the fundamental risks relating to pressure on prices and other market players. euromicron tackles these challenges by nurturing intensive contacts with customers and supplying special solutions in niche markets so as to be able to offer top-quality products and services at competitive prices.

Risk of change in interest rates

The risk of change in interest rates is the risk that the fair value or future cash flows of a financial instrument fluctuate due to changes in market interest rates. The risk of fluctuations in market interest rates to which the euromicron Group is exposed results mainly from variable-rate loans. Interest rate risks are restricted exclusively to the Euro zone. The financing that was contractually agreed and utilized at December 31, 2018, will result in interest expenses of around €3.2 million by the end of their term (previous year: €2.0 million). The due dates are presented in the later section "Liquidity risks". A sensitivity analysis is used to assess the interest rate risks. This

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shows the effects of different market interest rates on interest payments, interest income and interest expenses.

The euromicron Group complies with these stipulations and applies further assumptions:

- Changes in market interest rates for original financial instruments with a fixed rate have an impact on the result only if these instruments are measured at their fair value. All financial instruments with a fixed rate that are measured at their amortized cost are not therefore exposed to the risk of any change in interest rates.
- Changes in market interest rates for original financial instruments that have a variable rate and whose interest payments are not designated as a hedged item as part of cash flow hedges against risks of interest rate changes have an effect on the net interest income/loss and are included in calculation as part of the earnings-oriented sensitivity analysis.

If the average market level for interest rates in 2018 had been 50 base points higher, income before taxes at the euromicron Group would have been €451 thousand lower (previous year: €274). There would have been no effects if the average market level for interest rates had been lower. The hypothetical impact on income is mainly the result of the original financial instruments with a variable rate of interest and factoring.

Foreign currency risk

Foreign currency risks arise from future transactions, and assets and liabilities carried in foreign currency. The euromicron Group is mainly exposed to foreign currency risks as a result of financial instruments denominated in US dollars.

The financial assets include assets in USD totaling €6,011 thousand (previous year: €5,193 thousand). The financial liabilities in USD total €6,121 thousand (previous year: €3,531 thousand). Goods paid for in US dollars are purchased on the basis of short-term, foreign currency-based sales lists, which means that the currency risk can be controlled. The increase in trade accounts payable in foreign currency is mainly due to a higher purchasing volume in USD at individual Group companies at the key date.

If the exchange rate of the euro to the US dollar at December 31, 2018, had been 5% higher, the consolidated net income for the year would have been €5 thousand higher (previous year: € –247 thousand lower). However, if the exchange rate of the euro to the US dollar had been 5% lower, the consolidated net income for the year would have been € –6 thousand lower (previous year: €273 thousand higher). The risk to the Group from other foreign currency fluctuations is insignificant.

Risks of default

The risk of default is the risk that a business partner does not fulfill its obligations as part of a financial instrument or customer master agreement and that results in a financial loss. Due to its broad customer base, the euromicron Group is mainly exposed to the risk of default on trade accounts receivable and contract assets as part of its business operations.

An unusually high risk exposure cannot be discerned. There is no credit risk at the Group as a result of receivables being concentrated on one or a small number of trade debtors. In addition, the risk of default is minimized by Group-wide monitoring of accounts receivable. Moreover, credit sale insurance policies were concluded for specific companies. The maximum risk of default is to the carrying amounts of the financial assets carried on the balance sheet which are not secured by credit sale insurance policies. This risk is reflected by means of allowances for doubtful accounts.

The maximum risk of default is the gross carrying amount of the cash and cash equivalents. No significant risks of counterparty default were identified during the fiscal year. The counterparties were for the most part classified as investment grade.

The euromicron Group uses the simplified approach under IFRS 9 to determine the expected losses. Accordingly, the loss amount is in the amount equal to lifetime expected credit losses. The need for impairment is analyzed at every balance sheet date using a provision matrix to determine the expected credit losses over lifetime. In order to measure the losses expected over the term, trade accounts receivable and contract assets are grouped on the basis of common risk characteristics and the days by which they are overdue. The contract assets relate to current work that has not yet been invoiced and essentially have the

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same risk characteristics as the trade accounts receivable for the same types of contract. The euromicron Group has therefore drawn the conclusion that the expected likelihood of defaults on trade accounts receivable represent a reasonable approximation of the likelihood of defaults on contract assets.

The expected probability of defaults is based on historic defaults and the due date structure of the trade accounts receivable over the past three years. The probability of defaults is adjusted to reflect current and prospective information that affects the ability of customers to settle their debts.

No impairment was carried for cash and cash equivalents and other financial assets for reasons of materiality.

Trade accounts receivable and contract assets are derecognized if, in a reasonable assessment, there are objective indications that they cannot longer be realized.

Income and expenses from the change in impairment for doubtful accounts are carried in the income statement under the item "Other operating income" or "Other operating expenses".

There were the following changes in the impairment for trade accounts receivable and contract assets: Table 089

Changes in the impairment for trade accounts receivable and contract assets 089

	Trade accounts receivable	Contract assets	Total
	€ thou.	€ thou.	€ thou.
Balance at January 1, 2018, acc. to IAS 39	**2,387**	**0**	**2,387**
IFRS 9 adjustments	99	54	153
Balance at January 1, 2018, acc. to IFRS 9	**2,486**	**54**	**2,540**
Allocation	57	0	57
Utilization	834	0	834
Reversal	53	18	71
Balance at December 31, 2018	**1,656**	**36**	**1,692**

Unrecoverable receivables for which no allowances had previously been formed were derecognized to an amount of €6 thousand in 2018 (previous year: €100 thousand) due to events that had an impact on their value.

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The table below shows the gross carrying amounts (measured at amortized cost) for trade accounts receivable that are due and not due at December 31, 2018, and for which an impairment has been made either on the basis of a provision matrix using the simplified approach under IFRS 9 or by means of individual allowances for doubtful accounts. The table is supplemented by the contract assets: Table 090

Provision matrix for trade accounts receivable and contract assets 090

	Trade accounts receivable								
		Provision matrix							
	No application of the provision matrix, individual allowance for doubtful accounts	Not due	Due in 1–30 days	Due in 31-60 days	Due in 61-90 days	Due in >90 days	Total	Total receivables measured at amortized cost	Contract assets
	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.	€ thou.
Probability of default	N/A	0.088 %	0.296 %	0.296 %	0.937 %	2.715 %	N/A	N/A	0.088 %
Gross carrying amount	2,529	5,092	416	620	263	3,622	10,013	12,542	40,791
Less insured receivables	0	–822	–132	–30	0	0	–984	0	0
Estimated total gross carrying amount in the event of default	2,529	4,270	284	590	263	3,622	9,029	11,558	40,791
Expected credit loss	–1,549	–4	–1	–2	–2	–98	–107	–1,656	–36
Net carrying amount	980	5,088	415	618	261	3,524	9,906	10,886	40,755

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Liquidity risks

A further risk for the euromicron Group is the provision of sufficient liquidity for the subsidiaries' business operations. euromicron AG must ensure that the receivables resulting from financing of the operating units through the cash pool retain value. This is achieved by permanent and standardized finance management and reporting that constantly monitors and assesses the subsidiaries' activities and assigns measures to them.

With regard to the measures to secure future liquidity, please refer to the comments in section 3.2 "Risk report and salient features of the risk management system" in the group management report.

The contractually agreed (undiscounted) interest payments and repayments for the financial liabilities of the euromicron Group are shown below: Tables 091 and 092

All financial instruments held on the balance sheet date December 31, 2018, and for which payments have already been contractually agreed were included. The variable interest payments from the financial instruments were calculated on the basis of the interest rates applicable on December 31, 2018 (previous year: December 31, 2017). Financial liabilities that can be repaid at any time have been assigned to the earliest possible time segment.

euromicron uses derivative financial instruments exclusively to hedge interest rate risks resulting from financial transactions. A decision on this is taken on a case-by-case basis. They are not held for the purposes of short-term speculation. No derivative financial instruments were held either at December 31, 2018, or at December 31, 2017.

Cash flow from liabilities in 2018 091

	Carrying amount at Dec. 31, 2018	Cash flow up to 6 months	Cash flow 6–12 months	Cash flow in 2020	Cash flow in 2021	Cash flow in 2022	Cash flow 2023 et seq.
		in € thou.	in € thou.	in € thou.	in € thou.	in € thou.	in € thou.
Liabilities to banks	97,639	58,544	1,651	8,141	31,672	20	0
Liabilities from finance leases	1,153	214	155	285	271	191	121
Other financial liabilities	1,295	1,055	246	0	0	0	0
Total	**100,087**	**59,813**	**2,052**	**8,426**	**31,944**	**211**	**121**

Cash flow from liabilities in 2017 092

	Carrying amount at Dec. 31, 2017	Cash flow in 2018	Cash flow in 2019	Cash flow in 2020	Cash flow in 2021	Cash flow 2022 et seq.
		in € thou.	in € thou.	in € thou.	in € thou.	in € thou.
Liabilities to banks	90,549	72,031	20,364	0	0	0
Liabilities from finance leases	1,664	581	366	285	271	312
Other financial liabilities	2,172	1,562	610	0	0	0
Total	**94,385**	**74,174**	**21,340**	**285**	**271**	**312**

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32. Related parties

Persons and companies are regarded as related parties if they control the euromicron Group or exert a significant influence on its financial and business policy or the euromicron Group has a significant influence over them.

In fiscal year 2018, services totaling €322 thousand (previous year: €0 thousand) were obtained from companies that are controlled by members of management in key positions. At the balance sheet date, there were liabilities from them totaling €264 thousand (previous year: €0 thousand), which are carried under the trade receivables.

Further relations with members of the Executive Board and Supervisory Board are explained in section 36.

33. Declaration on the German Corporate Governance Code in accordance with Section 161 AktG (German Stock Corporation Law)

In fiscal year 2018, euromicron AG largely complied with the recommendations of the German Corporate Governance Code in its version dated February 7, 2017, which was published in the Federal Official Gazette on April 24, 2017. The exceptions are listed in the declaration on conformance by the Executive Board and Supervisory Board dated March 28, 2019, which can be read on the company's homepage at:

www.euromicron.de/en/investor-relations/declaration-on-conformance-2019

34. Stock option program / securities transactions requiring disclosure

There is currently no stock option program or comparable incentive system based on securities. The members of the Executive Board and Supervisory Board do not hold more than 1% of the shares issued by euromicron AG directly or indirectly.

35. Auditors' fees

The independent auditor of euromicron AG is PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft.

The auditing services comprise the fees for auditing the financial statements of the companies and the Group, as well as for reviews of the Group's interim financial statements.

Auditors' fees 093

	2018		2017	
	€ thou.	€ thou.	€ thou.	€ thou.
	Total	of which not related to the period	Total	of which not related to the period
Auditing services	548	21	486	12
Other confirmation services	202	2	0	0
Tax consulting services	40	0	41	7
Other services	0	0	159	0
Total	**790**	**23**	**686**	**19**

The fees for other confirmation services relate in particular to services for euromicron AG in preparing the issue of comfort letters. The fees for tax consulting services include in particular fees for advice on special tax-related matters and for preparing tax returns.

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36. Supervisory Board and Executive Board

(a) Executive Board

Bettina Meyer
Spokeswoman of the Executive Board

Finance, Legal Affairs, Human Resources, Accounting/Controlling, Investor Relations and Purchasing

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- None

Dr. Frank Schmitt (since February 1, 2019)
Chief Technical Officer

Operations, Technology, Product Development and IT

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- None

Jörn Trierweiler (since April 30, 2018)
Business Transformation

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- ATRUS Cement Holding AG (in liquidation), Ohlsdorf, Austria (until May 26, 2018)
- Joint Libyan Cement Manufacturing Company, Tripoli, Libya, as part of a professional restructuring solution

Jürgen Hansjosten (until April 30, 2018)
Operations, Strategy, IT and Purchasing

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- Chairman of the Supervisory Board of AMS Technologies AG, Planegg

(b) Supervisory Board

The members of the Executive Board of euromicron AG are or were:

Evelyne Freitag, Chairwoman
Graduate in Business Management, Chief Financial Officer
Germany/Switzerland/Austria
of Sanofi-Aventis Deutschland GmbH, Frankfurt/Main

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- Chairwoman of the Supervisory Board of the Pensionskasse der Mitarbeiter der Hoechst-Gruppe VVaG, Frankfurt/Main
- Foreign trade advisor to France in Germany

Klaus Peter Frohmüller, Deputy Chairman (since May 29, 2018)
Graduate in Economics
Advisor to brain-in-transAction GmbH, Hanau

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- Ziemann Sicherheit GmbH, Schallstadt
- 67rockwell Consulting GmbH, Hamburg
- PerformanceDNA GmbH, Neu-Isenburg

Dr. Martina H. Sanfleber (since June 5, 2018)
Doctor of Business Economics
Full-time member of the Supervisory Board of the RWE/Innogy Group, Meerbusch

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- Essent N.V., 's-Hertogenbosch, Netherlands
- Stadtwerke Duisburg AG, Duisburg
- Goodyear Dunlop Tires Germany GmbH, Hanau

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Rolf Unterberger, Deputy Chairman (until May 22, 2018)
Graduate in Industrial Engineering,
business consultant and Managing Director of RMU Capital GmbH, Munich

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- Managing Director of Executive Interim Partners GmbH, Munich
- Member of the Advisory Board of Melboss Music, Palo Alto (CA), U.S.

Dr. Alexander Kirsch (until May 29, 2018)
Businessman,
Managing Partner of Renusol Europe GmbH, Cologne

Membership of legally mandated Supervisory Boards or other comparable German or foreign supervisory bodies of business enterprises:

- Chairman of the Supervisory Board of SKW Stahl-Metallurgie Holding AG, Munich (until May 18, 2018)

The term of office of Ms. Freitag expires at the end of the General Meeting that decides on discharge of the Supervisory Board for fiscal year 2020. The term of office of Mr. Frohmüller and Dr. Sanfleber expires at the end of the General Meeting that decides on discharge of the Supervisory Board for fiscal year 2018.

(c) Remuneration of the board members
In total, the members of the Supervisory Board received compensation of €135 thousand (previous year: €135 thousand) in accordance with the Articles of Association; it consists solely of fixed compensation. The fixed compensation for members of the Supervisory Board is €30 thousand, with the Chairman/Chairwoman of the Supervisory Board receiving twice and his/her deputy one-and-a-half times the fixed compensation. Apart from that, the members of the Supervisory Board did not receive any further payments in the year under review.

The compensation for the Supervisory Board members for fiscal year 2018 has not yet been paid out.

In the fiscal year, the Executive Board received a total remuneration of €956 thousand (previous year: €604 thousand); the variable payment made up €97 thousand of this (previous year: €180 thousand) and the components with a long-term incentive effect made up €191 thousand (previous year: €0 thousand).

The total compensation for former Executive Board members in the fiscal year was €200 thousand (previous year: €0 thousand). This relates to severance pay awarded to an Executive Board member who left in fiscal year 2018.

As in 2017, no expenses from the pension commitments to Executive Board members were recognized in fiscal year 2018.

The disclosures required for listed stock corporations pursuant to Section 314 (1) No. 6 a Sentences 5 to 8 of the German Commercial Code (HGB) are contained in the Compensation Report, which is part of the management report. Additional presentation of the information included in that report in the notes is therefore dispensed with.

37. Declaration by the legal representatives

"We affirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in compliance with the applicable accounting principles and that the group management report gives a true and fair presentation of the course of business, including the business results, and the position of the Group and accurately describes the main opportunities and risks of the Group's anticipated development."

Frankfurt/Main, April 8, 2019

Bettina Meyer Spokeswoman of Board the Executive Board	Dr. Frank Schmitt Executive Board member	Jörn Trierweiler Executive Board member

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Auditor's Report

Following the final results of our audit, we have issued the following unqualified audit report dated April 8, 2019:

Independent auditor's report

Audit opinions

We have audited the consolidated financial statements of euromicron AG, Frankfurt/Main, and its subsidiaries (the Group), consisting of the consolidated balance sheet as of December 31, 2018, the consolidated statement of comprehensive income, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from January 1 to December 31, 2018, as well as the notes on the consolidated financial statements, including a summary of significant accounting methods. We have also audited the group management report of euromicron AG for the fiscal year from January 1 to December 31, 2018. In accordance with German statutory requirements, we did not audit the contents of the components of the group management report specified in the section "Other information" of our auditor's report.

In our opinion pursuant to the findings gained during the audit,

- the enclosed consolidated financial statements comply, in all material respects, with the IFRS, as are to be applied in the EU, and in addition to the German statutory regulations to be applied pursuant to Section 315e (1) of the HGB (German Commercial Code) and give a true and fair view of the net assets and financial position of the Group as of December 31, 2018, and of its results of operations for the fiscal year from January 1 to December 31, 2018, taking into account these regulations, and

- the enclosed group management report conveys overall an accurate picture of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German statutory requirements, and accurately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the contents of the components of the group management report specified in the section "Other information".

In accordance with Section 322 (3) Sentence 1 HGB, we declare that our audit did not result in any objections to the legal compliance of the consolidated financial statements and the group management report.

Basis for the audit opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the Group companies in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

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Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1 to December 31, 2018 These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

In our opinion, the following matters were of most significance in our audit:

1. Recoverability of goodwill (impairment test)

2. Accounting of project contracts that have to be recognized over time and first-time application of IFRS 15

We have structured our presentation of these particularly key audit matters as follows:

1. Matter and statement of the problem

2. Audit approach and findings

3. Reference to further information

We present the particularly key audit matters in the following:

1. Recoverability of goodwill (impairment test)

1.1 Goodwill totaling €110.6 million (45.4% of total assets or 167.1% of equity) is carried under the balance sheet item "Goodwill" in the consolidated financial statements of euromicron AG. Goodwill is tested for impairment every year and as warranted (in an event-driven test) by the company to determine any need for it to be written down. The impairment test is conducted at the level of the group of cash-generating units to which the goodwill is assigned. In the impairment test, the carrying amount of each cash generating unit, including the goodwill, is compared with the recoverable amount. The recoverable amount is determined in principle on the basis of the fair value minus costs of sale. The basis of measurement here is usually the present value of the future cash flows of the respective group of cash-generating units. The present values are determined by means of discounted cash flow models. In this, the medium-term planning adopted by the Group forms the starting point and is updated by assumptions relating to long-term growth rates. Expectations of future market development and assumptions on the development of macroeconomic factors are also taken into account. The plausibility of the budgeting on which the impairment test is based – including the in-depth estimates and assumptions of the legal representatives – was examined by an external expert engaged by the company. Discounting is carried out using the weighted average cost of capital for the respective group of cash-generating units. The result of the impairment test revealed that there was no need to recognize an impairment on the goodwill.

The result of this assessment depends to a great extent on the estimate by the legal representatives as regards future cash inflows for the respective group of cash-generating units, the discount rate used, the rate of growth, and other assumptions and so is subject to considerable uncertainty. In view of that and the complexity of such an assessment and the issue's significance for the company's net assets and results of operations, this matter was of particular importance in our audit.

1.2 As part of our audit, we gained an understanding of the methodological approach applied in the impairment test, among other things. After comparing the future cash inflows used for calculation with the medium-term planning adopted by the Group, we assessed the reasonableness of the calculation. Accompanying that, we also assessed the usability of the report created by the external expert. That also included an evaluation of the professional qualifications of the external expert. In particular, we also gained an understanding of the original data used, and the assumptions made or applied, in the report and assessed their reasonableness. We also

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examined whether the costs of Group functions were taken into account properly. Knowing that just relatively small changes in the applied discount rate and growth rate may have significant impacts on the company's value determined in this way, we looked intensively at the parameters used to determine the applied discount rate and the growth rate and gained an understanding of the calculation scheme. In order to reflect the existing uncertainties in forecasting, we gained an understanding of the sensitivity analyses created by the company. As part of that, we found that the carrying amounts of the cash-generating units, including the assigned goodwill, are sufficiently covered by the discounted future cash surpluses, taking into account the information available. The measurement parameters and assumptions applied by the legal representatives match our expectations as a whole and are also within fluctuation margins that we believe to be acceptable.

1.3 The company's disclosures on goodwill can be found in section 1 (a) of the notes on the consolidated financial statements.

2. Accounting of project contracts that have to be recognized over time and first-time application of IFRS 15

2.1 Sales totaling €318.0 million are reported in the consolidated income statement in the company's consolidated financial statements. The company has established extensive systems and processes throughout the Group to ensure accurate revenue recognition and accrual. There were significant effects on revenue recognition and accrual in this fiscal year due to first-time adoption of the new accounting standard for revenue recognition (IFRS 15). Sales to an amount of €162.4 million (51.1% of sales) must be ascribed to project contracts that have to be recognized over time. The percentage of completion of project contracts is estimated on the basis of the ratio of order costs that have actually already been incurred to the planned total costs. First-time adoption of IFRS 15 resulted in a change in sales totaling €461 thousand (0.1% of sales), mainly due to change in the time that the sales are realized. Adoption of IFRS 15 resulted in a significant expansion in disclosure obligations. In addition, IFRS 15 necessitates estimates and discretionary decisions for certain areas, and we had to assess the reasonable of them as part of our audit. In particular, the planned total costs of project contracts that had to be recognized over time and appropriate allocation of the incurred costs to the contracts are based on estimates and assumptions by the legal representatives. Accurate revenue recognition and accrual with Group-wide adoption of the new accounting standard IFRS 15 is also complex. In view of that, recognition of sales was of special importance in our audit.

2.2 As part of our audit, we assessed among other things the processes and controls relating to revenue recognition that have been established by the Group and adjusted to IFRS 15. In addition, our audit assesses the effects of adoption of IFRS 15; we were supported in that task by our internal specialists from our Capital Markets and Accounting Advisory Services division. In connection with the disclosure obligations from first-time adoption of IFRS 15, we assessed among other things the appropriateness of the methods and approaches applied in switching to IFRS, including the impact analyses conducted within the Group, and evaluated the estimates and discretionary decisions by the legal representatives relating to revenue recognition and accrual for the various business models of the Group companies. In relation to project contracts that have to be recognized over time, we examined randomly selected projects to determine whether the requirements for recognition of profits over time in accordance with IFRS 15 were met. In addition, we evaluated how their percentage of completion had been determined and the pro-rata recognition of sales and profits based on that. In this connection, we gained an understanding of how the planned total costs and the actually incurred costs are determined. That also included assessing the progress of the respective projects through talks with project managers and by inspecting project documents. We also assessed the continuity and consistency of the methods applied to calculate the incurred costs. We also

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addressed the audit risk inherent in this area by consistent Group-wide audit procedures. We satisfied ourselves that the systems and processes that have been set up and adjusted to IFRS 15, as well as the controls that have been established, are appropriate and that the estimates and assumptions made the legal representatives are adequately documented and substantiated so as to ensure proper recognition of sales as part of first-time adoption of IFRS 15.

2.3 The disclosures by the company on first-time adoption of IFRS 15 are contained in section 2.1 "Accounting principles" and the disclosures on revenue from project contracts that have to be recognized over time are contained in section 2.19 "Revenue from contracts with customers" and section 16 "Sales" in the notes on the consolidated financial statements.

Other information

The legal representatives are responsible for the other information. The other information comprises the following components of the group management report whose contents were not audited:

- The corporate governance declaration in accordance with Section 289f and Section 315d HGB (German Commercial Code) contained in section 5 of the group management report
- The Corporate Governance Report in accordance with Section 3.10 of the German Corporate Governance Code
- The separate non-financial report in accordance with Section 289b (3) HGB and Section 315b (3) HGB

The other information also comprises the other parts of the Annual Report – excluding further cross-references to external information –, with the exception of the audited consolidated financial statements, the audited group management report, and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the legal representatives and the Supervisory Board for the consolidated financial statements and the group management report

The legal representatives are responsible for the preparation of consolidated financial statements that comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the Group's net assets, financial position and results of operations. In addition, the legal representatives are responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position

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and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of readers taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems;

- Evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures;

- Conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern;

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in compliance with the IFRSs as adopted in the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB;

- Obtain sufficient appropriate audit evidence regarding the accounting information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions;

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Company's position it provides;

- Perform audit procedures on the prospective information presented by the legal representatives in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters discussed with those charged with governance, we determine those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as the group auditor by the General Meeting on June 13, 2018. We were engaged by the Supervisory Board on December 6, 2018. We have been the group auditor of euromicron AG, Frankfurt/Main, without interruption since fiscal year 2010.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German public auditor responsible for the engagement

The German public auditor responsible for the engagement is Thomas Heck.

Frankfurt/Main, April 8, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Thomas Heck	ppa. Diana Plaum
German public auditor	German public auditor

SINGLE-ENTITY FINANCIAL STATEMENTS (HGB)

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Balance sheet – Assets

at December 31, 2018, of euromicron AG, Frankfurt/Main

Balance sheet – Assets 094

	Dec. 31, 2018 in €	Dec. 31, 2017 in €
A. Fixed assets		
I. Intangible assets		
Purchased concessions, industrial and similar rights	485,676.00	378,450.00
II. Property, plant and equipment		
Other equipment, operating and office equipment	212,083.00	308,765.00
III. Financial assets		
1. Shares in affiliated companies	141,105,491.48	146,083,367.12
2. Loans to affiliated companies	17,000,000.00	17,900,000.00
3. Securities classified as noncurrent assets	21,452.00	54,777.00
4. Prepayments	10,000.00	10,000.00
	158,136,943.48	164,048,144.12
	158,834,702.48	**164,735,359.12**
B. Current assets		
I. Receivables and other assets		
1. Receivables from affiliated companies	26,697,421.36	29,460,379.02
2. Other assets	854,297.86	1,918,355.40
	27,551,719.22	31,378,734.42
II. Cash-in-hand, bank balances	30,173.79	9,786.23
	27,581,893.01	**31,388,520.65**
C. Prepaid expenses	**210,239.10**	**170,611.40**
	186,626,834.59	**196,294,491.17**

Balance sheet – Equity and liabilities

at December 31, 2018, of euromicron AG, Frankfurt/Main

Balance sheet – Equity and liabilities 095

			Dec. 31, 2018	Dec. 31, 2017
			in €	in €
A.	**Equity**			
	I.	Subscribed capital	18,347,554.88	18,347,554.88
	II.	Capital reserves	96,689,403.69	96,689,403.69
	III.	Revenue reserves		
		Other revenue reserves	6,433,729.53	6,433,729.53
	IV.	Net accumulated losses	–69,988,648.22	–43,251,861.92
			51,482,039.88	**78,218,826.18**
B.	**Provisions**			
		1. Provisions for taxes	255,120.31	217,562.32
		2. Other provisions	1,741,048.86	1,899,525.30
			1,996,169.17	**2,117,087.62**
C.	**Liabilities**			
		1. Liabilities to banks	93,098,018.42	87,314,963.58
		2. Trade accounts payable	1,307,637.83	1,013,345.24
		3. Liabilities to affiliated companies	38,496,561.53	25,343,248.48
		4. Other liabilities (of which from taxes €211,887.29; previous year: €1,551.000.41)	246,407.76	2,285,020.07
			133,148,625.54	**115,956,577.37**
D.	**Deferred income**		**0.00**	**2,000.00**
			186,626,834.59	**196,294,491.17**

Income statement

for the period January 1 to December 31, 2018, of euromicron AG, Frankfurt/Main

Income statement 096

	2018 in €	2017 in €
1. Income from investments	1,300,000.00	600,000.00
(thereof from affiliated companies €1,300,000.00; previous year: €600,000.00)		
2. Income from profit and loss transfer agreements	4,789,690.88	12,775,282.84
(thereof from affiliated companies €4,789,690.88; previous year: €12,775,282.84)		
3. Expenses from assumption of losses	–16,674,516.76	–7,529,087.13
(thereof from affiliated companies €16,674,516.76; previous year: €7,529,087.13)		
4. Sales	1,887,926.15	1,893,149.55
5. Other own work capitalized	0.00	52,288.72
6. Other operating income	819,346.68	795,689.08
7. Cost of materials		
a) Cost of purchased services	–218,122.87	–319,302.57
8. Personnel costs		
a) Salaries	–3,504,570.04	–3,349,250.94
b) Social security and other pension costs	–383,937.63	–402,609.28
(of which in respect of old age pensions €26,379.96; previous year: €28,227.06)		
9. Amortization of intangible assets and depreciation of tangible assets	–248,973.83	–226,663.21
10. Other operating expenses	–5,535,999.16	–5,641,481.27
11. Income from long-term loans	30,000.00	75,000.00
(thereof from affiliated companies €30,000.00; previous year: €75,000.00)		
12. Other interest and similar income	932,058.52	1,562,844.63
(thereof from affiliated companies €920,577.44; previous year: €1,331,281.01)		
13. Write-downs of financial assets	–5,044,238.00	–472,132.00
14. Interest and similar expenses	–4,843,230.42	–3,822,575.13
(thereof to affiliated companies €437,917.87; previous year: €463,320.46)		
(of which expenses from interest accrued for provisions €3,125.48; previous year: €4,584.33)		
15. Income taxes	–38,618.67	1,623,500.40
16. Income after taxes	**–26,733,185.15**	**–2,385,346.31**
17. Other taxes	–3,601.15	50,439.06
18. Net loss for the year	**–26,736,786.30**	**–2,334,907.25**
19. Loss carried forward	–43,251,861.92	–40,916,954.67
20. Net accumulated losses	**–69,988,648.22**	**–43,251,861.92**

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Five-year overview of the Group

Values from the income statement 097

	2018	2017	2016	2015	2014
	€ m.	€ m.	€ m.	€ m.	€ m.
Sales	318.0	332.9	325.3	344.9	346.3
Germany	264.7	277.8	274.3	291.3	293.9
Euro zone	35.7	37.3	35.7	35.2	31.3
Rest of World	17.7	17.8	15.3	18.4	21.1
EBITDA (operating) *	6.5	13.5	13.2	13.8	21.1
EBITDA	1.9	9.5	7.4	6.9	21.1
EBIT (operating) *	–3.1	5.1	4.5	4.5	11.4
EBIT	–7.8	1.1	–2.3	–8.6	11.4
EBT	–14.0	–3.6	–7.6	–12.7	7.8
Consolidated net income for the period Thereof for shareholders of euromicron AG	–11.5	–3.8	–12.7	–13.3	2.6
Net cash from operating activities	3.3	–1.6	–7.1	4.5	–1.9

* Adjusted for special costs (previous year: special effects of the reorganization).

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Values from the balance sheet

098

	2018	2017	2016	2015	2014
	€ m.	€ m.	€ m.	€ m.	€ m.
Current assets	95.3	105.4	103.4	128.9	150.7
Noncurrent assets	148.4	146.8	141.2	142.0	136.7
Current liabilities	131.3	142.9	114.0	142.8	119.4
Noncurrent liabilities	46.1	30.7	48.2	31.0	57.6
Minority interests	0.8	0.6	0.5	0.4	0.4
Equity	66.2	78.6	82.4	97.0	110.4
Total assets	243.7	252.2	244.6	270.8	287.4
Equity ratio	27.2 %	31.1 %	33.7 %	35.8 %	38.4 %
Working capital ratio	9.0 %	12.9 %	11.8 %	17.8 %	19.2 %

Miscellaneous

099

	2018	2017	2016	2015	2014
	€ m.	€ m.	€ m.	€ m.	€ m.
Investments in property, plant and equipment and intangible assets	8.8	14.5	8.9	8.2	6.4
Employees (number as an average for the year)	1,917	1,833	1,804	1,825	1,784

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April 11, 2019	Publication of the 2018 Annual Report, Analysts' Conference and accounts press conference
May 9, 2019	Publication of the business figures for the 1st quarter of 2019
July 3, 2019	General Meeting, Frankfurt/Main
August 8, 2019	Publication of the business figures for the 2nd quarter of 2019
November 7, 2019	Publication of the business figures for the 3rd quarter of 2019

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